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KEDI ECONOMIC SURVEY

NOVEMBER 1981 ISSUE

KENT ECONOMIC
AND DEVELOPMENT
INSTITUTE

P.O. Box 641/Kent, Ohio 44240/U.S.A.

Vol. 7, No. 5, November 1, 1981

KEDI ECONOMIC SURVEY

NOVEMBER 1981 ISSUE

President: Vladimir J. Simunek

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Publication No. 118100654
KEDI November 1, 1981.

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1.0 OVERVIEW AND ASSUMPTIONS

1.01 OVERVIEW

The Administration has admitted that the country is in a recession. KEDI expected that the third quarter would show some slight decline or be roughly flat and that the fourth quarter would show some gain. The decline was slight for the third quarter but now a fourth quarter gain is no longer in this forecast.

Recently released data show that the economy is really in a downturn. A slight downturn was a possibility stated here. What has happened is a bit more than what had been anticipated by KEDI. Still, on balance, the declines in various measures are not too extensive.

KEDI agrees with the Treasury Secretary Donald Regan who contended that there are powerful forces already working to transform the current "weakness into strength, namely the tax cut package and the downward trend in short-term interest rates." (The Wall Street Journal, October 30, 1981) We disagree with his prediction that the recession will be mild "and its end certain and swift."

The analysis shows that the general forecast data for the entire economy, as are those of Gross National Product and Index of Industrial Production, may indicate mild declines; however, for some industries the slump will be deep and extended far into the year 1982.

We are not so optimistic as forecasters in Chase Econometrics, Data Resources and E. F. Hutton & Co. that see the rebound in the first quarter of 1982. The view of Evans Economics Inc. that the economy will flatten until mid-1982 is also not shared here. It will pick up before then.

It is now the position at this Institute that the current slowdown will deepen in the coming months. It is expected that the economy will be quite sluggish in the fourth quarter of this year and the first quarter of next year. Rejuvenation is going to begin in the second quarter of 1982.

As has been maintained in previous issues, the United States economy is sectorized at the present time. Some sectors will show growth and some will decline even more. The slump will not be dramatic for the economy as a whole. However it will be dramatic for some sectors, mainly construction, autos, appliances, lumber, clay and glass, and some sections of electrical and nonelectrical machinery.

Not until 1983 will the economy be more monolithic. Between now and 1983 represents a transition period to strong growth.

The present weakness of the economy is mostly due to the fact that its structure is changing to be more DEFENSE ORIENTED. In the transition period, there will be winners and losers. In the view of the Administration, the Defense industry has not grown enough in recent years.

The projection of the general trend does remain the same, as compared with KEDI's previous forecasts. In 1982, the economy will remain sectorized with some industries showing rapid growth and others still not entirely out of the woods. During 1983, the economy will become more compact with more regular growth in all industries, and a resumption of general expansion will take place. The economy is expected in full swing in 1984 with the upward trend continuing in the following years.

To focus more on 1982, the first half will be generally sluggish. Interest rates will be still at high levels. Housing, appliances, furniture, cars, carpeting, lumber, building materials will still be low. In the second half of the year there will be more apparent growth. We expect stronger rebound in housing starts, appliances and machinery and exports industries. Industries with strong performance throughout 1982 are: mining, chemicals, aerospace, energy exploration, defense, ordnance and accessories, transportation, petroleum products and related industries.

1.02 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, the changes concern the updates of Assumptions No. 1 and 4.

1. In 1985, all U.S. demands for oil should be met. In 1982, it is expected the weighted price of oil will go up to $36; in 1983, to $40 per barrel; in 1984, to $44 per barrel; and in 1985, $48 per barrel.

2. It is expected, that the Mid East crisis will continue throughout this and the next year, and more normal economic situations, including a significant resumption in the area of oil exports, will take place not earlier than in 1983.

3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1981-85 period. In 1982, some relaxation, and in 1983, tightening is assumed.

4. Increases in state and local taxation in 1981-85 are anticipated. Price and wage controls must remain the last resort of stabilization policy.

5. Our foreign trade with China will gain a substantial momentum in 1982 and following years.

6. In 1982 and 1983 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1984. The U.S. 1983 harvest will be average. The years 1984 and 1985 should bring U.S. record crops.

7. It is projected here that the average rates of growth in 1981-85 in the major industrial countries will be as follows for real GNP:

	1981-1985
West Germany	3.0%
Japan	3.4%
Italy	2.4%
Great Britian	2.4%
France	2.8%

8. No drastic changes in existing international relationships are assumed in this forecast.

The November 1981 KEDI forecast is highlighted in Table 1.0 on the following page.

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE

MONTH: November 1981

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1980	1981	1982	1985
Gross National Product	bil. const. 72 $	1480.7	1510.3	1528.6	1732.5
Index of Industrial Production	1967 =100	147.1	152.3	154.1	184.5
Capacity Utilization	%	78.7	79.3	79.6	85.9
Unemployment Rate	%	7.2	7.4	7.5	6.9
Private Housing Starts	mil. units	1.292	1.097	1.008	1.689
Car Sales	mil. units	9.0	9.0	9.3	11.0
Implicit GNP Price Deflator	1972 =100	177.4	192.9	206.9	249.1
Consumer Price Index	1967 =100	246.7	271.9	295.7	366.4
Producer Price Index	1967 =100	269.8	293.9	320.9	395.6
Federal Deficit	bil. $	-61.2	-49.7	-46.3	-18.4
Personal Income	bil. $	2160.2	2405.7	2647.5	3719.4
Prime Rate	%	15.10	19.00	16.47	12.30
Mortgage Rate	%	14.43	16.10	12.90	11.26
Currency plus Demand Deposits	bil. $	377.1	367.0	383.1	443.2
Commercial and Industrial Loans	bil. $	324.9	354.8	387.2	446.9

1.10 REAL GROWTH
(Table 1.10 on page 11)

There are increasing signs that many industries are showing some declines and their situation is starting to affect other industries. As was indicated in the Overview section, the weakness is by no means a hint of any permanent disability or even a semi-permanent one. The weakness is temporary: the patients strength should begin to gain strength in the latter part of 1982. It will be a bit longer than that before the foot dragging caused by the heavy weight of the construction and auto industry begin to move forward at a faster pace themselves but not a lot longer.

The 0.6 percent decline in GNP for the third quarter as compared to the second quarter in terms of the preliminary data bares a closer look. The decline of roughly $2 billion is mainly attributable to the downward movement in the following areas that were partly offset by gains in other sectors. In the third quarter as compared to the prior quarter:

A. Residential construction was: -$4 billion
B. Lower exports and higher imports: -$7 billion
C. State and local spending: -$2 billion

On the other hand there was a gain in Personal Consumption Expenditures of $10 billion.

For the fourth quarter of 1981, KEDI expects personal consumption to remain strong, and the other components to be flat or show small declines. Hence, the GNP for the fourth quarter will not show any drastic decline.

2. Retail sales in September showed a small increase of 0.4 percent. The forecast by this Institute for the fourth quarter shows the gain to be 0.8 percent over the previous quarter. KEDI agrees with the view of the Deputy Commerce Secretary, Mr. J. Wright, Jr. that the increase in take-home pay generated by the federal income tax change will increase consumer spending. An economist at Chase Econometrics, Sandra Shaber, pointed to the weak economy and consumer spending that will not surge, but also won't drop a lot.

The weakness of the economy will not be clearly shown in the GNP figures for the last three months of this year and the first part of next year. This is due to the sectors with strength somewhat overshadowing the weak ones and the initial effects of the reduction in the individual bites federal taxes take from pay checks. It is likely that these will disguise the sluggishness of the economy: i.e., that it will be down a bit more than the GNP figures indicate.

3. Factory orders dropped in September by 2.9 percent. More declines are expected in the coming months. New orders for nondefense capital goods plunged by 9.5 percent, while defense industries showed an increase of 15.3 percent. If the defense sector is not counted, durable orders would have shown a drop of 4.2 percent.

As Robert Ortner of the Commerce Department expressed it, and KEDI now agrees, there will be more declines in industrial production in October.

4. Industrial production edged down by 0.8 percent in September. The change was fairly widespread for items in the index.

5. The mood of purchasing agents changed toward more pessimism in September as they evaluated the assortment of declines in economic indicators. Almost one-half of the purchasing agents surveyed said the third quarter turned out less well than they had expected.

6. The scene at the car dealers is a mixed one. New car sales were down again in early October, but used cars were moving at a fast clip. (Or is it that the buyer is more cautious and less likely to be clipped. One almost refrains from any mention of being clipped by the used car salesmen -- a la ancient image.)

The average price of many new cars are in the $7,000 to $10,000 range whereas a car that is two years old is often about half that cost. A car that is around a year old can be had for roughly one third the price of a new model. (But it would probably fetch more than that if it had indeed been driven just once a week to church by the previous proverbial little-old-lady owner.)

As to new cars, production for October has been cut by 17 percent from the level of a year ago. That will be the lowest output since 1970. For the fourth quarter, output will be down by 8 percent from the quarter of last year which was pretty low by itself. Early October auto sales skidded by 35 percent. The steep drop was partly blamed on higher prices, fewer rebates and money going to new "all saver" certificates.

Still, disaster is not looming on the horizon. The industry will have new rebate programs in the last part of this year to help give sales a boost.

The KEDI forecast of the U.S. economy shows average growth near 2 percent this year and the overall performance in 1982 reflecting the slow first quarter denting the improved performance in the other quarters.

Growth Rates (GNP in constant 1972 $, % over previous year):

1981	1.9
1982	1.2
1983	3.8
1984	4.7

TABLE 1.10 REAL GROWTH
(Unless otherwise noted, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2	3	4	
Gross National Product, 1972 $	bil. $	1480.7	1516.4	1510.4	1508.2	1506.3	1510.3
Index of Industrial Production	1967=100	147.1	151.8	152.5	153.1	151.7	152.3
Unemployment Rate	%	7.2	7.3	7.4	7.2	7.8	7.4
Capacity Utilization Rate	%	78.7	79.9	80.1	79.0	78.2	79.3
Private Housing Starts	mil. units	1.292	1.361	1.166	.966	.894	1.097
Car Sales	mil. units	9.0	10.2	7.9	9.1	8.9	9.0

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1510.3	1505.4	1515.6	1532.4	1561.2	1528.6
Index of Industrial Production	1967=100	152.3	151.4	152.1	154.0	158.9	154.1
Unemployment Rate	%	7.4	7.8	7.6	7.4	7.3	7.5
Capacity Utilization Rate	%	79.3	78.0	78.4	79.9	81.9	79.6
Private Housing Starts	mil. units	1.097	.893	.965	1.043	1.133	1.008
Car Sales	mil. units	9.0	8.8	9.0	9.5	9.9	9.3

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1528.6	1575.2	1601.4	1625.5	1653.9	1614.0
Index of Industrial Production	1967=100	154.1	163.8	168.2	171.8	174.3	169.5
Unemployment Rate	%	7.5	7.1	7.0	6.9	6.6	6.9
Capacity Utilization Rate	%	79.6	84.2	85.6	86.9	87.1	86.0
Private Housing Starts	mil. units	1.008	1.225	1.441	1.690	1.626	1.495
Car Sales	mil. units	9.3	9.7	9.8	10.6	11.0	10.3

* Historical Data

1.20 PRICES
(Table 1.20 on page 14)

As compared with the previous forecast, this one shows a small general change. The rate of inflation as measured by the Consumer Price Index shows has been increased approximately 0.2 percent for 1981 through 1983 when compared with the last KEDI forecast.

Consumer Price Index (1967=100)
Percentage Change over prior year

1981	10.2
1982	8.9
1983	9.0
1984	9.2

In September, the CPI went up at an annual rate of 14.8 percent. That was the third month in a row that showed double digit inflation. On a monthly basis, the September gain was 1.2 percent as compared with the August gain of 0.8 and a July rate the same as September.

Commerce Department calculations for the prices in general, not just consumers, showed a third quarter rise of 9.4 percent at an annual rate as compared to the second quarter figure of 6.4 percent.

The forecast shows that in 1982 and 1983 consumers in this nation will see the main price increases in the following items (approximate change over prior year).

	1982	1983
Food	+8%	6%
Clothing and shoes	9	7
Housing	10	8
Medical services	12	12
Energy items	10	13

1.30 EMPLOYMENT AND LABOR
(Table 1.30 on page 15)

As compared with the previous forecast, the unemployment rate here has been changed slightly for the rest of this year and for 1982. (See Table 1.30 on page 15) The September rate of joblessness was 7.5 percent.

The KEDI projection of the last quarter's rate of unemployment follows:

1981	7.76%
1982	7.31%
1983	6.64%
1984	6.15%
1985	6.23%

This Institute is not as pessimistic as some economists that predict unemployment at 8.5 percent by March of 1982 and see it as staying high for months. The Administration is maintaining its prediction of 7.7 percent as the average during the last quarter of this year and a general decline during 1982. KEDI does not see the rate as showing much decline next year.

TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data are
seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1 *	2	3	4	
Consumer Price Index, NSA	1967= 100	246.7	262.9	269.7	275.9	279.0	271.9
Producer Price Index, NSA	1967= 100	269.8	287.3	291.7	296.2	300.4	293.9
Implicit GNP Price Deflator	1972= 100	177.4	188.1	191.1	195.4	197.1	192.9
Gross National Product	bil. $	2626.1	2853.0	2885.8	2947.0	2969.2	2913.8
Personal Consump Expenditures	bil. $	1672.8	1810.1	1829.1	1888.6	1908.9	1859.2
Gross Private Dom. Investment	bil. $	395.3	437.1	458.6	449.8	459.7	451.3

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Consumer Price Index, NSA	1967= 100	271.9	285.6	291.7	298.4	307.0	295.7
Producer Price Index, NSA	1967= 100	293.9	308.1	312.7	322.3	340.5	320.9
Implicit GNP Price Deflator	1972= 100	192.9	200.9	205.7	208.5	212.3	206.9
Gross National Product	bil. $	2913.8	3024.3	3118.9	3194.6	3314.4	3163.1
Personal Consumpt Expenditures	bil. $	1859.2	1939.8	2019.6	2079.2	2167.4	2051.5
Gross Private Dom. Investment	bil.$	451.3	480.3	496.5	508.4	520.6	501.5

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Consumer Price Index, NSA	1967= 100	295.7	312.9	318.9	325.6	331.8	322.3
Producer Price Index, NSA	1967= 100	320.9	346.2	353.9	358.9	366.0	356.3
Implicit GNP Price Deflator	1972= 100	206.9	215.9	218.9	223.9	227.6	221.6
Gross National Product	bil. $	3163.1	3400.9	3505.5	3639.4	3764.2	3577.5
Personal Consump Expenditures	bil. $	2051.5	2227.5	2292.4	2389.6	2469.7	2344.8
Gross Private Dom. Investment	bil. $	501.5	543.1	560.2	570.8	579.5	563.4

*Historical Data

TABLE 1.30 EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2	3	4	
Population	mil.	2230.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	104.7	105.8	106.1	106.4	107.1	106.4
Employed	mil.	97.1	98.0	98.3	98.7	98.8	98.5
- Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
- Non Agriculture	mil.	94.1	94.7	95.0	95.3	95.4	95.1
Unemployment Rate	%	7.19	7.34	7.37	7.24	7.76	7.43

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Population	mil.	225.9	228.0	229.2	230.4	231.4	229.6
Civilian Labor Force	mil.	106.4	108.0	108.7	109.5	110.7	109.2
Employed	mil.	98.5	99.6	100.5	101.4	102.6	101.0
- Agriculture	mil.	3.3	3.4	3.4	3.3	3.3	3.4
- Non Agriculture	mil.	95.1	96.2	97.1	98.1	99.4	97.7
Unemployment Rate	%	7.43	7.81	7.58	7.42	7.31	7.53

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Population	mil.	229.6	321.5	232.2	232.9	233.4	232.5
Civilian Labor Force	mil.	109.2	111.9	113.0	113.4	114.2	113.1
Employed	mil.	101.0	103.9	105.1	105.6	106.6	105.4
- Agriculture	mil.	3.4	3.3	3.4	3.3	3.4	3.4
- Non Agriculture	mil.	97.7	100.6	101.7	102.3	103.2	102.0
Unemployment Rate	%	7.53	7.12	6.98	6.92	6.64	6.92

* Historical Data

1.40 HOUSING
(Table 1.40 on page 18)

The forecast of housing starts has been revised downward for 1983 by approximately 10 percent when compared with the figures in last month's issue. For 1983 and the following years, it remains essentially unchanged.

Housing starts dropped to the lowest level in six and one-half years in September. They were at an annual rate of 918,000 that month.

It is anticipated here that housing starts will now remain depressed in the first half of 1982. Some signs of recovery will likely be seen in the middle of that year with more building taking place in 1983.

Regional analysis shows that the hardest hit areas in the first part of 1982 will be the West and the North Central areas. The decline in the Northeast and the South will not be as severe and will be relatively mild.

KEDI agrees with Michael Sumichrast of the NAHB that starts will be low for at least another six months. However, the view that they will drop below the 800,000 level is not seen as likely.

KEDI analysis shows that the main obstacle in recuperation of this industry is the high mortgage rate. That will not drop significantly before the latter part of next year. See more on this in Section 1.8.

1.50 BUDGETS

(Table 1.50 on page 20)

The forecast of the U.S. government deficit has been increased slightly. The low level of economic performance now anticipated for the first half of 1982 or slightly longer will reduce corporate tax receipts. On the spending side, the situation will lead to outlays on unemployment being higher than the forecast pointed to in previous issues.

Presented here are the figures for the estimate of the size of the federal deficit for calendar years presented in last month's issue and the revision this month.

	October Projection	November Projection
1982	42.3	44.5
1983	29.7	31.7
1984	10.7	12.3

The forecast anticipates that the added budget cuts for the fiscal 1982 budget will go through in the proposed amount of $13 billion. Further cuts of 13 and 22 billion in 1983 and 1984 will take place.

TABLE 1.40 HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2	3	4	
Single-Family Housing Starts	mil.	.860	.850	.775	.639	.582	.711
Multifamily Housing Starts	mil.	.473	.511	.391	.327	.312	.385
Mobile Home Shipments	mil.	.222	.248	.276	.230	.216	.243
Housing Permits Issued	mil.	1.117	1.177	1.147	.874	.854	1.013
Construction Costs-Commerc.	1972=100	198.5	208.7	214.6	218.9	224.2	216.7
Construction Costs-Resident.	1972=100	198.6	209.5	215.1	217.8	225.1	216.9

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Single-Family Housing Starts	mil.	.711	.569	.587	.642	.695	.623
Multifamily Housing Starts	mil.	.385	.324	.387	.401	.438	.386
Mobile Homes Shipments	mil.	.243	.221	.236	.247	.262	.242
Housing Permits Issued	mil.	1.013	.765	.848	.943	1.162	.930
Construction Costs-Commerc.	1972=100	216.7	230.7	241.5	247.8	256.5	244.1
Construction Costs-Resident.	1972=100	216.9	230.2	239.4	243.6	245.3	240.0

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Single-Family Housing Starts	mil.	.623	.729	.860	.998	.983	.892
Multifamily Housing Starts	mil.	.386	.496	.581	.692	.643	.603
Mobile Homes Shipments	mil.	.242	.289	.326	.359	.350	.331
Housing Permits Issued	mil.	.930	1.265	1.547	1.635	1.748	1.549
Construction Costs-Commerc.	1972=100	244.1	260.7	270.1	280.5	289.5	275.2
Construction Costs-Resident.	1972=100	240.0	258.1	273.2	284.5	285.6	275.4

* Historical Data

KEDI has shown in its projection for the past year that the target of a balanced budget in 1984 cannot be met. Now, the Administration's economists start to admit that is the case. Still, the size of the 1984 deficit is relatively small.

The forecast data for State and local governments tax receipts from corporations and individuals has been somewhat increased as it is expected that the rates will be increased in order to aid state financing problems.

1.60 INCOME
(Table 1.60 on page 22)

The forecast for Personal Income here remains essentially the same. For the rest of this year and a good part of 1982 KEDI does expect a slowdown in the growth of personal income. A steep decline is not anticipated. It will not occur.

The forecast of profits for the fourth quarter of this year and early next year has been somewhat reduced. It remains basically unchanged for the years 1983 through 1985.

Profits for corporations were up 14 percent according to a survey released by Citibank in the third quarter over the year-earlier level. Much of the increase was due to steel manufacturers gains over the like period in 1980 which was a very weak one for them.

TABLE 1.50 FEDERAL AND STATE
AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980	1981				1981
			1*	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	257.8	283.3	293.1	306.6	308.9	298.0
Corporate Profit Tax Accruals	bil. $	70.1	74.6	63.3	65.2	71.4	68.6
Surplus./Deficit	bil. $	-61.2	-46.6	-50.0	-51.9	-50.2	-49.7
State and Local Governments:							
Income Taxes	bil. $	80.7	88.6	89.7	93.3	94.9	91.6
Corporate Profit Tax Accruals	bil. $	12.2	13.1	11.6	12.2	14.0	12.7
Surplus./Deficit	bil. $	29.1	36.9	36.0	36.5	36.9	36.6

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	298.0	311.2	317.9	319.2	330.4	319.7
Corporate Profit Tax Accruals	bil. $	68.6	78.6	84.2	87.6	92.1	85.6
Surplus./Deficit	bil. $	-49.7	-48.3	-47.7	-46.2	-42.8	-46.3
State and Local Governments:							
Income Taxes	bil. $	91.6	98.8	101.6	104.2	106.9	102.9
Corporate Profit Tax Accruals	bil. $	12.7	14.8	16.4	17.1	18.9	16.8
Surplus./Deficit	bil. $	36.6	36.5	34.8	33.5	32.1	34.2

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	319.7	338.2	351.7	356.8	367.9	353.7
Corporate Profit Tax Accruals	bil. $	85.6	100.5	108.4	119.8	130.1	114.7
Surplus./Deficit	bil. $	-46.3	-35.2	-30.8	-25.2	-28.1	-29.8
State and Local Governments:							
Income Taxes	bil. $	102.9	110.5	113.8	115.6	117.9	114.5
Corporate Profit Tax Accruals	bil. $	16.8	21.5	22.6	29.4	24.9	24.6
Surplus./Deficit	bil. $	34.2	30.8	30.9	30.8	31.9	31.1

* Historical Data

Also auto losses were, by comparison, not as great. Profits are flattening, and that will show in the next quarters.

As to a forecast of profits for 1982 by KEDI, the sectorized nature of the economy shows clearly here. For instance, the following industries are viewed as chalking up increases in profits in the 20 percent range: defense, coal mines, energy exploration, chemicals, steel, oil industry, aerospace, and ordnance and accessories. Moderate profit increases in the 10 percent range are seen for banks, paper, rubber, plastics, food, tobacco, retail and wholesale, machinery, nonferrous metals, nonresidential construction, textiles, railroads, trucking and petroleum products when 1982 is compared to 1981.

Low profits and some losses are going to occur for housing, savings and loan, furniture, lumber and wood products, stone, clay and glass, and last but not least, U.S. automobiles.

1.70 MONEY AND CREDIT

(Table 1.70 on page 24)

There are increasing signs that the Federal Reserve is relaxing the tight money policy somewhat. In fact, it was announced on October 31 that effective November 2, its basic discount rate would be lowered from 14 to 13 percent. Still, the 2 percent surcharge for large lenders was left in tact.

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE

Month: November 1981

TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2	3	4	
Personal Income	bil. $	2160.2	2319.8	2368.5	2440.0	2494.3	2405.7
Personal Dispos. Income	bil. $	1821.7	1947.8	1985.6	2040.1	2090.5	2016.0
Compensation of Employees	bil. $	1596.5	1722.4	1752.0	1790.0	1820.6	1771.3
Corp. Profits After Tax	bil. $	163.1	169.2	152.7	159.6	162.4	161.0
Personal Saving	bil. $	101.3	88.9	106.6	100.2	103.1	99.7
Average Weekly Earnings	$	297.4	310.7	316.9	317.6	324.2	317.4

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Personal Income	bil. $	2405.7	2542.1	2610.5	2672.3	2765.1	2647.5
Personal Dispos. Income	bil. $	2016.0	2132.1	2191.0	2248.9	2327.8	2225.0
Compensation of Employees	bil. $	1771.3	1846.7	1883.1	1928.7	1977.5	1909.0
Corp. Profits After Tax	bil. $	161.0	163.5	168.9	178.7	197.5	177.1
Personal Saving	bil. $	99.7	105.4	107.2	114.3	116.5	110.9
Average Weekly Earnings	$	317.4	330.7	335.7	342.7	348.1	339.3

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Personal Income	bil. $	2647.5	2814.8	2894.2	3076.3	3136.2	2980.4
Personal Dispos. Income	bil. $	2225.0	2366.1	2428.7	2603.9	2650.4	2512.1
Compensation of Employees	bil. $	1909.0	2035.4	2089.5	2164.3	2237.9	2131.8
Corp. Profits After Tax	bil. $	177.1	205.8	212.6	220.4	225.7	216.1
Personal Saving	bil. $	110.9	118.7	112.4	120.5	124.0	118.9
Average Weekly Earnings	$	339.3	355.6	365.4	371.2	377.4	367.4

Comments from the Treasury Department indicated that their slow money growth would reduce interest rates and the current cut was viewed with pleasure. The Administration is also pleased and taking its share of credit.

KEDI maintains the position that the basic tight money and credit policy will remain generally unchanged. Not until the latter part of next year is a significantly beneficial loosening of the restraints foreseen.

Recent data indicate that the demand for credit is still fairly strong for the industries that are experiencing rapid growth such as defense related industries, coal, aerospace and chemicals. That demand will remain strong, and the demand of the Treasury for funds will also remain strong.

It is expected at this Institute that the Feds will ease credit only gradually. The forecast for monetary and credit aggregates remains basically unchanged.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 27)

This forecast is in line with the general view that has been maintained here for the past year. Interest rates will be declining gradually with more meaningful drops not earlier than later next year.

TABLE 1.70 MONEY AND CREDIT

(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1980*	1981				1981
			1*	2	3	4	
Currency + Demand Deposits, M1A	bil. $	376.7	365.8	364.5	367.0	370.8	367.0
Time Deposits, Adjusted, M2	bil. $	1601.0	1718.4	1743.6	1763.2	1770.4	1748.9
Consumer Instal. Credit	bil. $	313.4	310.8	318.5	324.9	333.9	333.9
Commerc. & Industr. Loans at Banks	bil.$	324.9	332.3	340.6	347.2	354.8	354.8
Negotiable Cert. of Deposits	bil. $	129.2	132.4	136.8	142.6	151.4	151.4
Mortgages at S & L Assns.	bil. $	502.8	507.0	507.6	509.1	511.2	511.2

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	367.0	374.7	379.4	383.7	394.5	383.1
Time Deposits, Adjusted, M2	bil. $	1748.9	1800.1	1809.6	1846.5	1872.8	1832.3
Consumer Instal. Credit	bil. $	333.9	341.4	346.9	355.3	362.4	362.4
Commerc. & Industr. Loans at Banks	bil. $	354.8	362.0	366.7	375.8	387.2	387.2
Negotiable Cert. of Deposits	bil. $	151.4	157.8	162.0	168.7	172.5	172.5
Mortgages at S & L Assns.	bil. $	511.2	514.4	521.6	527.4	535.6	535.6

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	383.1	401.5	412.7	420.8	427.5	415.6
Time Deposits, Adjusted, M2	bil. $	1832.3	1911.5	1937.2	1988.9	2030.6	1967.1
Consumer Instal. Credit	bil. $	362.4	372.4	380.6	390.4	396.5	396.5
Commerc. & Industr. Loans at Banks	bil. $	387.2	394.1	404.6	411.7	422.5	422.5
Negotiable Cert. of Deposits	bil. $	172.5	174.6	178.7	182.3	184.6	184.6
Mortgages at S & L Assns.	bil. $	535.6	547.2	555.3	566.8	568.4	568.4

*Historical Data

Recent development confirm that view. A major Chicago bank snipped its prime rate to 17 1/2 from 18 percent at the end of October.

Short-term interest rates will move down during the rest of the year. A vice president of Goldman, Sachs & Co. predicted that the prime rate on corporate loans will slide to about 16 percent by the end of this year (The Wall Street Journal, October 30, 1981). This Institute agrees with the long term projection that the prime rate will move down close to or at 15 percent in 1982. Mr. J. Jordan of the Council of Economic Advisors made that statement about the middle of October.

Concerning long-term rates, KEDI's predictions are again confirmed. Mortgage rates will be dropping very slowly. More substantial declines are expected no sooner than the latter part of 1982. Agreement with that view comes from those in the building field. Mr. Sumichrast of the NAHB expressed the view that rates as "low" as 13 percent will not be reality in 1982. Others indicate that there is no relief in sight for the builders much before late 1982.

In late October, the mortgage lending average rate was 18.27 percent. The chief economist for the Federal Home Loan Mortgage Corporation said she expected the rate to be at about 17.75 at the end of the year, 16 percent by the middle of 1982 and 14.5 percent by the end of that year.

INTEREST RATES, YIELDS, AND SECURITIES PRICES

KEDI's forecast of stock market remains unchanged. No dramatic ups or downs are expected in 1982-1985 period.

TABLE 1.80 INTEREST RATES, YIELDS AND SECURITIES PRICES

(Quarterly averages of monthly figures)

Indicator	Unit	1980*	1981				1981
			1*	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	11.51	14.37	14.83	15.71	14.31	14.81
Prime Rate	%	15.10	19.21	18.93	19.84	18.02	19.00
Mortgage Rate, New Homes	%	14.43	15.11	16.13	16.72	16.43	16.10
Aaa Bonds Rate	%	11.94	13.92	13.98	15.17	14.76	14.46
Long Term Govt. Bonds Yield	%	11.39	12.74	13.49	13.71	13.71	13.41
Standard & Poor's 500 Average	1941-43 =10	118.71	131.52	132.81	128.42	128.76	131.37

Indicator	Unit	1981	1982				1982
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	14.81	13.96	13.63	13.10	12.62	13.33
Prime Rate	%	19.00	17.65	16.94	16.03	15.26	16.47
Mortgage Rate, New Homes	%	16.10	14.15	13.02	12.26	12.18	12.90
Aaa Bonds Rate	%	14.46	13.90	13.05	12.26	12.04	12.81
Long Term Govt. Bonds Yield	%	13.41	13.24	12.87	12.42	12.06	12.65
Standard & Poor's 500 Average	1941-43 =10	131.37	127.24	129.56	131.68	133.49	130.49

Indicator	Unit	1982	1983				1983
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	13.33	12.14	11.48	11.06	11.64	11.58
Prime Rate	%	16.47	15.02	14.21	13.97	14.26	14.37
Mortgage Rate, New Homes	%	12.90	11.96	11.43	11.82	12.20	11.85
Aaa Bonds Rate	%	12.81	11.36	11.12	10.85	10.92	11.06
Long Term Govt. Bonds Yield	%	12.65	12.10	12.23	12.42	12.26	12.25
Standard & Poor's 500 Average	1941-43 =10	130.49	136.54	137.42	141.16	141.04	139.04

* Historical Data

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the Gross National Product in constant $ for the third quarter of 1981 has been selected for comparison. The actual figure is the October, 1981, first estimate of the U.S. Department of Commerce. Forecast data are from the Business Forecasts 1981, Federal Reserve Bank of Richmond, Richmond, Virginia, 1981. The following table shows the predictions of forecasters and the deviations of forecast data.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

(Gross National Product, bill. 72$, seas. adj. at annual rates)

Actual: 1508.2

Forecaster	Forecast	Page of Business Forecasts 1981	% of Accuracy
Peter L. Bernstein, Inc.	1431.0	20	-5.2
American Statistical Assn. and NBER	1443.4	21	-4.3
Ameritrust	1441.0	22	-4.5
Georgia State University	1442.0	23	-4.4
The First National Bank of Chicago	1423.0	24	-5.7
Manufacturers Hanover Trust	1418.5	25	-6.0
Chemical Bank	1449.0	26	-4.0
UCLA	1444.6	27	-4.3
WGN Continental Broadcasting Co.	1417.5	29	-6.1
Cyrus J. Lawrence Inc.	1443.8	29	-4.3
Bankers Trust Co.	1435.7	30	-4.9
Data Resources, Inc.	1426.7	32	-5.5
KEDI	1520.4	33	+ .0
Fidelity Bank	1445.1	34	-4.2
Morgan Guaranty	1502.9	35	- .4
Chase Econometrics	1494.8	36	- .9
Equitable Life Assurance Society	1484.4	37	-1.6

KEDI ECONOMIC SURVEY
DECEMBER 1981 ISSUE

KENT ECONOMIC
AND DEVELOPMENT
INSTITUTE

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Vol. 7, No. 6, December 1, 1981

KEDI ECONOMIC SURVEY

DECEMBER 1981 ISSUE

President: Vladimir J. Simunek

This updated monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquiries should be directed to: KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, Kent Student Center, KSU Campus, Kent, OH 44242, U.S.A. Kent State University Foundation, Inc., and Kent Economic and Development Institute are not liable for any claim based on deviation of forecast data from actual data. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

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Publication No. 128100664
KEDI December 1, 1981.

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1.01 OVERVIEW

The current slowdown will deepen in the coming months. The economy will remain sectorized. It will be about half a year before the benefits of the second round of tax cuts and new defense orders will be felt.

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Assumptions of this forecast remain unchanged. Updates concern Assumption No.6.

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KEDI sees the unemployment rate peaking in January at 8.6 per cent and then gradually edging down.

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1.50 BUDGETS 14

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The growth in the money supply will be below Federal Reserve targets this year. Loans will slow in their expansion in the next six months.

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1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES 20

The forecast that has been maintained here for small declines is coming into reality. The prime rate is seen as being at the 14 per cent level by the middle of 1982.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS 24

In this issue, Index of Industrial Production for the third quarter 1981 has been selected for comparison.

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1.0 OVERVIEW AND ASSUMPTIONS

1.01 OVERVIEW

The general outlook for the United States economy in 1982 remains unchanged from what it was in the November issue. The current slowdown will deepen in the coming months. The economy will remain sectorized. Some sectors such as coal mining, chemicals, aerospace, defense, and energy exploration industries will show a strong performance next year. However, the pit that some sectors are caught in, for example, construction, autos, appliances, and lumber will get even deeper in the months ahead. It will be toward mid-year that rejuvenation will begin.

The projection of the general trend forecast by KEDI does remain the same. In 1983 more regular growth in all industries will be the norm. General expansion will be broader and more rapid in 1984.

KEDI is not in agreement with President Reagan's chief economist. According to Murray Weidenbaum, the recession will bottom out in the current quarter. Secondly, he indicated that the economy will grow throughout 1982 and be lead by growth in housing and autos. Thirdly, in his view, real GNP will be flat in the first six months of next year and then grow at a 5 per cent rate during the rest of that year.

The view of this Institute is that the fourth quarter of this year will show a decline and the first quarter of 1982 will drop even more. That is hardly flat. The recession will get deeper in this quarter and in the next one. It also will continue in the second quarter of 1982. Housing and autos are not going to be leaders in growth. These are among the last currently. In this case, the last shall not be the first. Housing and autos are going to remain on the critical list until the middle of the year. Their condition will just begin to approach fair about then.

Another reason that the economy will continue on a downward trend through most of the second quarter, at least, is that the second round of the tax cuts will be realized in June of 1982, and the stimulative effect will be felt no earlier than the latter part of that year.

Thirdly, increased defense orders from the defense budget cannot have much effect on the economy until the last half of 1982. To use a phrase in a different context that got Stockman in trouble: it takes time for orders to trickle down.

What we have here is a gap of about six months between now and the time when defense programs and income tax incentives begin to show benefits. During these months, i.e., during the FIRST HALF OF 1982, the recession in many sectors of the economy will bite deep. High unemployment will not go away during that time.

1.02 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, the changes concern the updates of Assumption No. 6.

1. In 1985, all U.S. demands for oil should be met. In 1982, it is expected the weighted price of oil will go up to $36; in 1983, to $40 per barrel; in 1984, to $44 per barrel; and in 1985, $48 per barrel.

2. It is expected, that the Mid East crisis will continue throughout this and next year, and more normal economic situations, including a significant resumption in the area of oil exports, will take place not earlier than in 1983.

3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1981-85 period. In 1982, some relaxation, and in 1983, tightening is assumed.

4. Increases in state and local taxation in 1981-85 are anticipated. Price and wage controls must remain the last resort of stabilization policy.

5. Our foreign trade with China will gain a substantial momentum in 1982 and following years.

6. In 1983 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1984. The years 1984 and 1985 should bring U.S. record crops.

7. It is projected here that the average rates of growth in 1981-85 in the major industrial countries will be as follows for real GNP:

	1981-1985
West Germany	3.0%
Japan	3.4%
Italy	2.4%
Great Britain	2.4%
France	2.8%

8. No drastic changes in existing international relationships are assumed in this forecast.

The December 1981 KEDI forecast is highlighted in Table 1.0 on the following page.

1.10 REAL GROWTH
(Table 1.10 on page 8)

KEDI maintains the prediction that the current recession will be with us through the winter. The sluggish economy will continue until close to the middle of 1982. The improved performance anticipated in the last six months of 1982 will result in overall growth of 1.0 per cent as compared to 1981.

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE

MONTH: December 1981

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1980	1981	1982	1985
Gross National Product	bil. const. 72 $	1480.7	1510.2	1523.8	1755.1
Index of Industrial Production	1967 =100	147.1	152.3	154.1	185.7
Capacity Utilization	%	78.7	79.0	78.2	85.8
Unemployment Rate	%	7.2	7.5	7.9	6.9
Private Housing Starts	mil. units	1.292	1.085	.928	1.691
Car Sales	mil. units	9.0	8.7	8.6	11.0
Implicit GNP Price Deflator	1972 =100	177.4	192.9	206.9	249.0
Consumer Price Index	1967 =100	246.7	271.7	295.3	361.3
Producer Price Index	1967 =100	269.8	293.7	320.2	390.4
Federal Deficit	bil. $	-61.2	-51.4	-47.5	-20.8
Personal Income	bil. $	2160.2	2394.7	2578.6	3709.2
Prime Rate	%	15.10	19.12	14.91	12.36
Mortgage Rate	%	14.43	16.53	14.74	11.42
Currency plus Demand Deposits	bil. $	377.1	363.8	372.7	412.5
Commercial and Industrial Loans	bil. $	324.9	357.1	389.1	449.3

Again, it is emphasized that some industries will experience rapid growth, some will hold their own, and others will be in a prolonged slump.

The forecast by this Institute of the Index of Industrial Production shows the diversified developments of industries for the current quarter and for the year 1982:

Index of Industrial Production
(1967 = 100.)

	1981:4	1982:1	1982:2	1982:3	1982:4
Coal Mining	162.4	163.4	165.2	167.3	169.2
Foods	152.3	153.1	153.3	153.9	154.2
Textile Mill Prod.	134.2	131.3	130.2	131.2	132.4
Paper and Products	155.6	155.2	155.5	156.9	158.5
Chemicals and Prod.	216.4	216.3	217.8	219.2	220.3
Rubber & Plastics	275.3	273.1	273.3	275.6	277.9
Ordnance	83.4	84.6	85.7	86.9	88.3
Lumber and Prod.	109.5	106.3	105.9	107.2	109.5
Furnit.&Fixtures	155.2	149.7	148.8	150.6	152.3
Iron and Steel	97.6	96.8	97.2	99.4	101.9
Fabr.Metal Prod.	132.5	129.7	129.1	131.6	133.5
Nonelectr.Machinery	170.2	167.4	167.9	170.5	173.1
Electr. Machinery	176.5	173.0	172.9	173.7	175.7
Motor Veh.&Parts	106.7	102.1	101.3	104.3	106.9
Aerospace	109.0	110.2	112.4	114.7	116.8

The table shows that the auto industry will not recuperate in the first half of 1982. The same goes for industries related with construction.

In mid-November, the three major auto makers again cut their forecast for 1982. A few months ago they anticipated sales of around 10.5 million units for next year. Now they see little gain for the 8.7 million expected in unit sales in 1981. As is shown in Table 1.0 KEDI calculates car sales at 8.6 - 8.7 million for both this year and next (down slightly from last months forecast of 9.0 for the two years). Temporary closings in mid-November put over 25,000 more out of work for at least a week. Auto sales in mid-November skidded down by 30 per cent from the year earlier levels. On a seasonally adjusted basis, sales skidded to a 4.9 million annual rate from the 6.0 million rate of the first 10 days of the month. For the first 20 days, the annual sales rate was 5.3 million, seasonally adjusted.

As to housing, starts will still be around 860 thousand units at annual rates in the first half of 1982. In the second half, starts will gain to approximately 950 units. As compared to the November issue, that is a downward revision of about 8 per cent by KEDI.

New orders for durable goods reported recently added evidence to the recession case. Such orders were off by 8 per cent in October. The decline in August and September in goods that are expected to last more than three years was much smaller. The forecast by KEDI shows that durable goods orders will remain at low levels throughout the first part of the next year.

Further evidence of the recession is seen in low consumer demand. Retail sales were down by 1.5 per cent in October. The revised September decline was only 0.1 per cent. That was the fifth month of declines this year. Much of the downturn was due to car sales being off by 8.7 per cent in October. The decline in retail sales was seen as quite disappointing because the tax cuts were reflected in paychecks starting at the first of October. K-Mart sales gained over 17 per cent. Perhaps many people are shopping more carefully and bargain hunting when they do shop. One wonders if they feel good or depressed that they aren't in the higher priced department store with their more "luxurious" goods and generally better and quicker service.

One bright spot in the economy is AGRICULTURE. Well, bright in general as food price gains will slow, but not so good for the farmer getting lower prices due to the very good harvest. Wheat prices are down 7 per cent, soybeans are 19 per cent lower and corn is off by 23 per cent from last year. Farming is interest sensitive. High interest rate loans taken out earlier this year for new machinery or seeds and fertilizer and feed are going to have to be repaid on crops getting prices much lower than had been expected earlier by the people that feed us and millions abroad. This years bumper crops will help do that.

1.20 PRICES

(Table 1.20 on page 10)

The Producer Price Index increased by 0.6 per cent in October. That rate equals an annual rate of 7.2 per cent before compounding. It was attributed to the changes in auto and truck prices as the cost of 1982 models replaced the discounted 1981's in showrooms.So, although the 0.6 per cent was the largest gain since April, it does not mean more inflation to come now. KEDI agrees with Donald Ratajczak, director of the Economic Forecasting Project at Georgia State in that the producer price rises will be lower in 1981 than they were in 1980 due to the weak economy. The increase this year will be at the 7.5 per cent annual average rate as compared to 11.8 per cent for 1980.

There is good news. Consumer prices went up by only 0.4 per cent in October. Energy and food prices were down a bit. The September gain was 1.2 per cent, so the drop in the rate in October was sharp.

As compared with the previous issue, there is a very slight adjustment in the forecast of the inflation rate of 0.2 per cent during the next two years. Listed here are the forecast of the CPI in terms of percentage change over the prior year for the November issue and this current KEDI publication.

TABLE 1.10 REAL GROWTH
(Unless otherwise noted, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2*	3	4	
Gross National Product, 1972 $	bil. $	1480.7	1516.4	1510.4	1512.8	1501.1	1510.2
Index of Industrial Production	1967=100	147.1	151.8	152.5	153.1	151.1	152.1
Unemployment Rate	%	7.2	7.3	7.4	7.2	8.2	7.5
Capacity Utilization Rate	%	78.7	79.9	79.8	78.4	77.8	79.0
Private Housing Starts	mil. units	1.292	1.361	1.166	.966	.849	1.085
Car Sales	mil. units	9.0	10.2	7.9	9.1	7.6	8.7

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1510.2	1500.8	1511.6	1530.4	1552.2	1523.8
Index of Industrial Production	1967=100	152.1	150.9	151.6	153.4	157.2	153.3
Unemployment Rate	%	7.5	8.2	8.1	7.6	7.5	7.9
Capacity Utilization Rate	%	79.0	76.9	77.1	78.3	80.6	78.2
Private Housing Starts	mil. units	1.085	.822	.901	.965	1.021	.928
Car Sales	mil. units	8.7	7.6	8.4	9.2	9.3	8.6

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1524.7	1576.3	1602.4	1623.5	1646.9	1612.3
Index of Industrial Production	1967=100	153.3	162.6	167.5	171.2	174.3	168.9
Unemployment Rate	%	7.9	7.1	7.0	6.9	6.6	6.9
Capacity Utilization Rate	%	78.2	82.1	84.2	85.9	86.8	84.8
Private Housing Starts	mil. units	.928	1.216	1.399	1.539	1.595	1.437
Car Sales	mil. units	8.6	9.0	9.4	10.1	10.6	9.8

* Historical Data

	November Issue	Current Issue
1981	10.2	10.1
1982	8.9	8.7
1983	9.0	8.8
1984	9.2	9.1

The small change downward in the rate of inflation in our forecast is caused by the developments in agriculture and an increasing sense of a recessionary mood.

First, the large grain surplus is going to slow down the gains in food prices--and in farm income as was mentioned in the previous section. The Agriculture Department now expects that food price inflation will be in the area of 7 per cent in 1982 as compared to their projected rate of 8 to 8.6 per cent for this year. Second, there is various evidence of the recessionary mood. Sales and orders are not strong. Commodity futures prices which have gone down are attributed by those in the field to the increasing bearish reports on the economy.

The forecast is maintained by this Institute that the prices of energy will continue to increase. The recent agreement concluded by OPEC is expected to add about two cents a gallon to home heating-oil prices by those in the industry.

1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 12)

In this issue, there is a slight upward revision of the unemployment rate for this year and next year.

KEDI Projected Unemployment Rates (Year averages)

	November Issue	Current Issue
1981	7.43	7.54
1982	7.53	7.85
1983	6.92	6.90
1984	6.75	6.74

TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data are
seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2*	3	4	
Consumer Price Index, NSA	1967= 100	246.7	262.9	269.7	275.3	279.0	271.7
Producer Price Index, NSA	1967= 100	269.8	287.3	291.7	295.8	299.8	293.7
Implicit GNP Price Deflator	1972= 100	177.4	188.1	191.1	195.4	197.1	192.9
Gross National Product	bil. $	2626.1	2853.0	2885.8	2956.6	2958.7	2913.5
Personal Consump Expenditures	bil. $	1672.8	1810.1	1829.1	1887.2	1918.7	1861.3
Gross Private Dom. Investment	bil. $	395.3	437.1	458.6	459.1	462.1	446.7

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Consumer Price Index, NSA	1967= 100	271.7	285.3	291.2	297.8	306.7	295.3
Producer Price Index, NSA	1967= 100	293.7	307.6	312.1	321.8	339.2	320.2
Implicit GNP Price Deflator	1972= 100	192.9	200.9	205.7	208.5	212.3	206.9
Gross National Product	bil. $	2913.5	3023.6	3109.7	3191.3	3294.9	3154.9
Personal Consumpt Expenditures	bil. $	1861.3	1942.6	1984.5	2057.8	2125.7	2027.8
Gross Private Dom. Investment	bil.$	446.7	470.2	489.4	495.1	513.2	487.0

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Consumer Price Index, NSA	1967= 100	295.3	312.0	317.3	324.5	330.2	321.0
Producer Price Index, NSA	1967= 100	320.2	345.8	353.1	357.8	365.0	355.4
Implicit GNP Price Deflator	1972= 100	206.9	215.9	218.9	223.9	227.6	221.6
Gross National Product	bil. $	3154.9	3403.2	3508.3	3635.2	3748.0	3573.7
Personal Consump Expenditures	bil. $	2027.8	2203.6	2280.7	2379.6	2469.4	2333.3
Gross Private Dom. Investment	bil. $	487.0	540.1	564.5	577.0	587.7	567.3

*Historical Data

The main reason for the small change is that unemployment this quarter is shaping up to be a bit higher than was anticipated previously here. It will also be a bit higher in the first quarter of 1982 than was calculated earlier for joblessness in autos, electrical machinery, construction, lumber, furniture, and appliances.

Presented here are the KEDI calculations for the rate of unemployment during November and the following eight months: Nov.,8.3; Dec. 8.5; Jan., 1982, 8.6; Feb., 8.3; March, 8.2; April, 8.2; May, 8.1; and June, 7.6 per cent. The June rate is almost the same as the September, 1981 which was the month current difficulties began. However, the June 7.6 rate will represent a turnaround - economic improvement will follow. That corresponds with this Institutes view of the state of the economy (down this quarter and for most of the first half of '82).

KEDI agrees with Joel Popkin & Co. in the forecast of the jobless rate of 8.5 per cent by the end of this year. However, Mr. Greenspan's forecast of the year-end rate being 8.2 is seen as too low. Also, the outlook of Otto Eckstein of Data Resources that joblessness might go up to 9 per cent and that there is nothing positive going on in the economy is seen as off the mark here. (The Wall Street Journal, November 9, 1981.) Mr. Weidenbaum also said in the middle of November that the rate could hit 9 per cent. Well, he did not say that it positively would. At KEDI a rate of 9 per cent is not seen as being a reality. Such excessively gloomy statements are part of the recessionary mood of looking for the worst possibility.

1.40 HOUSING

(Table 1.40 on page 15)

The forecast for housing starts remains dark for 1982. As maintained here for many months, robust growth is not expected in

TABLE 1.30 EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2*	3	4	
Population	mil.	223.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	104.7	105.8	106.1	106.4	107.1	106.4
Employed	mil.	97.1	98.0	98.3	98.7	98.3	98.3
- Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
- Non Agriculture	mil.	94.1	94.7	95.0	95.3	95.0	95.0
Unemployment Rate	%	7.19	7.34	7.37	7.24	8.21	7.54

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Population	mil.	225.9	228.0	229.2	230.4	231.4	229.6
Civilian Labor Force	mil.	106.4	108.0	108.7	109.5	110.7	109.2
Employed	mil.	98.3	99.1	99.9	101.1	102.4	100.7
- Agriculture	mil.	3.3	3.4	3.4	3.3	3.3	3.4
- Non Agriculture	mil.	95.0	95.7	96.5	97.8	99.1	97.3
Unemployment Rate	%	7.54	8.24	8.08	7.63	7.49	7.85

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Population	mil.	229.6	231.5	232.2	232.9	233.4	232.5
Civilian Labor Force	mil.	109.2	111.9	113.0	113.4	114.2	113.1
Employed	mil.	100.7	103.9	105.1	105.6	106.6	105.4
- Agriculture	mil.	3.4	3.3	3.4	3.3	3.4	3.4
- Non Agriculture	mil.	97.3	100.6	101.7	102.3	103.3	102.0
Unemployment Rate	%	7.85	7.12	6.98	6.91	6.58	6.90

* Historical Data

the housing industry until 1983 and the following years.

Recent statistics confirm the abysmal state of affairs here. Housing starts descended to the lowest level in 15 years in October. The seasonally adjusted annual rate for that month was 857,000. That was 6.8 per cent lower than the September rate and 44 per cent below the October, 1980 rate. The October decline in single family starts more than offset the gain in multifamily starts.

In looking ahead to the first quarter of 1982, KEDI sees it as being the lowest because of the continued high interest rates and the large inventory of unsold houses. Mortgage rates went up to a record high in October of over 18 per cent. Very slight lowering of such rates will not be of much help to housing. This Institute agrees with Tom Parliament of the U.S. League of Savings Associations in that it will take a while for mortgage rates to soften in connection with the slight lowering of the cost of funds to thrift institutions expected.

As to the inventory of homes, at the end of August there were 300,000 (seasonally adjusted) single-family houses awaiting buyers. At the August sales rate, that would be about a 10 month supply. KEDI sees the view of Mr. Sumichrast of National Association of Home Builders as correct in that such a high inventory is going to force further restriction in construction. KEDI also agrees with him that there will be at least three months of depressing figures for housing starts before the recent lowering of short-term interest rates begins to help the home building industry.

The second quarter of 1982 will show some slight improvement. Housing starts are anticipated here to be at the annual rate of 900 thousand which would be an increase of 10 per cent over the previous quarter -- nothing to rave about if data for the 1970's is kept in mind. Mortgage rates anticipated of 13-14 per cent are the main reason for a bit of gain.

The third quarter will show a gain of roughly 8 per cent over the second quarter. Again, a mortgage rate down about another per cent to 12-13 is the main contributor.

In the fourth quarter of next year, KEDI expects the activity will stabilize. Housing starts will be at a 1 million annual rate. Mortgage rates will be about the same as in the third quarter.

As to housing costs for new homes in 15 key cities, Sylvia Porter reported the total monthly cost now averages $1,124--a rise of over 80 per cent since 1978. The interest and principal part of the costs jumped by 94 per cent in that time to $854 a month in these sample cities. The cost of insurance, taxes, heating, and electricity went up 52 per cent to $270 a month in 1981 as compared to 1978.

There is a bit of good news for prospective buyers as overall housing prices are down slightly. The few houses that did sell in October cost 0.7 per cent less than the month before. The continental state with the highest median house value was California where that figure was $84,000. The lowest median home value was in the South--Arkansas where a typical house could be had for $31,100. (Considering this, going South may gain even more in appeal, but there is a limit to the number of people that would want to live there or could find jobs.)

1.50 BUDGETS

(Table 1.50 on page 17)

The projected Federal deficit has been increased in this forecast by approximately $3 billion for calendar 1982. This is attributable to the downward revision in tax proceeds and higher federal spending caused by the recessionary trend which is expected to

TABLE 1.40 HOUSING

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2*	3	4	
Single-Family Housing Starts	mil.	.860	.850	.775	.639	.540	.701
Multifamily Housing Starts	mil.	.473	.511	.391	.327	.304	.384
Mobile Home Shipments	mil.	.222	.248	.276	.230	.212	.242
Housing Permits Issued	mil.	1.117	1.177	1.147	.874	.830	1.007
Construction Costs-Commerc.	1972=100	198.5	208.7	214.6	218.9	223.9	216.5
Construction Costs-Resident.	1972=100	198.6	209.5	215.1	217.8	224.0	216.6

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Single-Family Housing Starts	mil.	.701	.521	.552	.578	.619	.567
Multifamily Housing Starts	mil.	.384	.301	.349	.387	.405	.360
Mobile Homes Shipments	mil.	.242	.241	.261	.298	.302	.275
Housing Permits Issued	mil.	1.007	.760	.842	.967	1.154	.931
Construction Costs-Commerc.	1972=100	216.5	228.9	240.0	247.0	256.0	243.0
Construction Costs-Resident.	1972=100	216.6	228.2	238.5	243.1	244.9	238.7

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Single-Family Housing Starts	mil.	.567	.729	.837	.865	.916	.837
Multifamily Housing Starts	mil.	.360	.487	.562	.674	.679	.600
Mobile Homes Shipments	mil.	.275	.336	.358	.389	.356	.360
Housing Permits Issued	mil.	.931	1.260	1.506	1.630	1.701	1.524
Construction Costs-Commerc.	1972=100	243.0	259.1	270.0	279.8	287.6	274.1
Construction Costs-Resident.	1972=100	238.7	257.8	272.9	283.9	284.9	274.9

* Historical Data

last until the end of first half of 1982. The approval or disapproval of the budget in Congress or the White House is still being negotiated. Projections attempt to calculate that outcome.

Recent developments have confirmed forecasts made here since the start of this year. Namely, that the federal budget will not be balanced in 1984. Now President Reagan has acknowledged that situation. He allowed that the recent condition of the economy would prevent him from balancing the budget in 1984. Details were not given, but he indicated that deeper cuts in benefit programs are being considered along with some tax increases.

KEDI does not agree with some forecasts of the Administration. The "worst case" scenario of the Office of Management and Budget has the deficit for the current fiscal year at $98 billion. For fiscal 1983 it projects the worst as $25 billion and 1984 as $145 billion. That assumed Congress would not make any more spending cuts. (Certainly a worst case if there ever was one?).

The projection of Federal deficits at this Institute is as follows for the fiscal years listed:

1982	$53 billion
1983	$40 billion
1984	$20 billion

There are no significant changes for state and local budgets in the current forecast as compared with the previous issue.

1.60 INCOME
(Table 1.60 on page 19)

Seasonally adjusted personal income inched up by 0.6 per cent in October. That followed a gain Of 0.7 per cent in September. The bulk of the increase came from raises for federal employees and also from higher income from interest returns. If the federal pay

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2*	3	4	
Federal Govt.:							
Income Taxes	bil. $	257.8	283.3	293.1	306.7	309.1	298.1
Corporate Profit Tax Accruals	bil. $	70.1	74.6	63.3	65.8	66.7	67.6
Surplus./Deficit	bil. $	-61.2	-46.6	-50.0	-54.9	-56.2	-51.9
State and Local Governments:							
Income Taxes	bil. $	80.7	88.6	89.7	93.3	94.8	91.6
Corporate Profit Tax Accruals	bil. $	12.2	13.1	11.6	11.6	12.7	12.3
Surplus./Deficit	bil. $	29.1	36.9	36.0	37.2	37.4	36.9
Indicator	**Unit**	**1981**	**1982**				**1982**
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	298.1	312.3	318.9	319.4	331.7	320.6
Corporate Profit Tax Accruals	bil. $	67.6	67.2	74.3	77.6	82.4	75.4
Surplus./Deficit	bil. $	-51.9	-52.4	-48.6	-46.3	-42.7	-47.5
State and Local Governments:							
Income Taxes	bil. $	91.6	98.8	101.5	104.7	106.9	103.0
Corporate Profit Tax Accruals	bil. $	12.3	13.4	14.2	14.9	16.1	14.7
Surplus./Deficit	bil. $	36.9	37.1	36.8	35.4	32.6	35.5
Indicator	**Unit**	**1982**	**1983**				**1983**
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	320.6	339.4	352.6	357.2	368.7	354.5
Corporate Profit Tax Accruals	bil. $	75.4	90.6	98.7	107.5	117.3	103.5
Surplus./Deficit	bil. $	-47.5	-36.2	-32.8	-26.5	-28.7	-31.1
State and Local Governments:							
Income Taxes	bil. $	103.0	110.7	113.9	115.6	117.9	114.5
Corporate Profit Tax Accruals	bil. $	14.7	18.7	19.2	20.8	22.3	20.3
Surplus./Deficit	bil. $	35.5	31.7	31.9	31.4	31.6	31.7

* Historical Data

raises were not included, October would have shown the smallest little gain of the year. It really was not much of a month for income.

The forecast for personal income for the last quarter of 1981 shows a slight increase of just 0.3 per cent as compared with the third quarter of this year. For the first quarter of 1982, such income will be on the same level as in the current quarter. Calculations here show personal income will edge up in the first quarter at the same rate as in this October: 0.6 per cent.

As compared with the more normal monthly rate of gain of 1.0 to 1.2 per cent, the current quarter through the second quarter of 1982 reflect the recessionary situation. A closer look at the forecast data shows the factors that will keep such income from showing a drop (which is happening in real terms to millions of Americans on fixed incomes or with pay raises well under the inflation rate) are the income from high interest rates and federal wages, salaries, and benefits.

1.70 MONEY AND CREDIT
(Table 1.70 on page 21)

KEDI's forecast of the basic measure of the money supply, the M1-B, shows it will level off for the rest of this year. The growth this year will only be 1.5 per cent over 1980 which is far below the Federal Reserve target of 3.5 per cent. For 1982, it is expected that the growth of 3.6 per cent will take place mainly in the second part of the year. The growth in M1-B for 1983 is projected here as 4.2 per cent. For 1984, the calculation shows a gain of 4.5 per cent over the prior year.

Commercial and industrial loans are predicted here to slow in their growth over the next six months. The main reasons are: 1) the slowdown in demand for new loans due to the general weakness in the economy, and 2) downward moving interest rates causing companies to turn more to the long-term bond markets for financing.

TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1 *	2 *	3	4	
Personal Income	bil. $	2160.2	2319.8	2368.5	2441.8	2448.7	2394.7
Personal Dispos. Income	bil. $	1821.7	1947.8	1985.6	2041.7	2044.6	2000.5
Compensation of Employees	bil. $	1596.5	1722.4	1752.0	1789.9	1800.4	1766.2
Corp. Profits After Tax	bil. $	163.1	169.2	152.7	153.5	150.8	156.6
Personal Saving	bil. $	101.3	88.9	106.6	103.3	100.3	99.8
Average Weekly Earnings	$	297.4	310.7	316.9	318.6	321.7	317.0

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Personal Income	bil. $	2394.7	2467.4	2534.1	2605.8	2707.1	2578.6
Personal Dispos. Income	bil. $	2000.5	2056.3	2113.7	2181.7	2268.5	2155.1
Compensation of Employees	bil. $	1766.2	1807.2	1843.1	1908.2	1970.6	1882.3
Corp. Profits After Tax	bil. $	156.6	153.5	160.9	171.2	185.4	167.8
Personal Saving	bil. $	99.8	101.6	104.7	113.1	116.8	109.1
Average Weekly Earnings	$	317.0	324.0	326.0	334.5	342.9	331.9

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Personal Income	bil. $	2578.6	2819.0	2897.4	3079.4	3132.6	2982.1
Personal Dispos. Income	bil. $	2155.1	2368.9	2430.9	2606.8	2636.0	2510.7
Compensation of Employees	bil. $	1882.3	2031.6	2088.7	2163.8	2237.2	2130.3
Corp. Profits After Tax	bil. $	167.8	194.2	203.1	217.6	225.0	210.0
Personal Saving	bil. $	109.1	118.7	113.3	121.8	124.7	119.5
Average Weekly Earnings	$	331.9	350.7	362.3	371.4	380.9	366.3

*Historical Data

KEDI expects that larger portions of the long-term issues will be used to repay bank loans.

As to assumptions here of Federal Reserve policy, they remain unchanged. Continued general tightness is anticipated with no essential loosening before second quarter of 1982. The forecast for consumer credit remains the same. Again, more significant changes in consumer debts are not expected before the latter half of next year. See Table 1.70.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 23)

The recent declines in interest rates are in line with the forecast presented here months ago and maintained consistently. Some major banks cut their prime rate to 16.5 per cent before the middle of November. That was the lowest level since about a year ago. Also, several banks cut their broker loan rate to 14 and 3/4 per cent or 15 per cent from levels of 15 and 3/4.

The forecast of KEDI remains the same: Interest rates will keep declining slowly throughout the rest of this year and during 1982. Some increases are anticipated in 1983 and 1984. Still, the declines for the rest of this year and next are gradual. They will remain at historically high levels.

The prime rate is seen as being in the 15-15.5 per cent range at the end of this year by KEDI. The chief economist of E.F. Hutton, Edward Yardeni, sees the prime rate as going down to 10 per cent by February or March. It will not get that low.

The forecast here is in rough line with that of a Paine, Webber, Jackson & Curtis V.P., Maury Harris, who projected a rate of 14-15 per cent for the prime at year end. The 15 per cent figure was also agreed upon by spokesperson for the Bank of America (quoted

TABLE 1.70 MONEY AND CREDIT

(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1980*	1981				1981.
			1*	2*	3	4	
Currency + Demand Deposits, M1A	bil. $	376.7	365.8	364.5	361.8	363.1	363.8
Time Deposits, Adjusted, M2	bil. $	1601.0	1718.4	1743.6	1762.2	1778.5	1775.4
Consumer Instal. Credit	bil. $	313.4	310.8	318.5	327.6	336.4	336.4
Commerc. & Industr. Loans at Banks	bil.$	324.9	332.3	340.6	349.8	357.1	357.1
Negotiable Cert. of Deposits	bil. $	129.2	132.4	136.7	142.8	153.3	153.3
Mortgages at S & L Assns.	bil. $	502.8	507.2	514.8	516.5	517.8	517.8

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	363.8	365.9	370.2	374.1	380.6	372.7
Time Deposits, Adjusted, M2	bil. $	1775.4	1804.3	1818.7	1840.2	1870.6	1833.5
Consumer Instal. Credit	bil. $	336.4	342.7	349.8	354.0	366.2	366.2
Commerc. & Industr. Loans at Banks	bil. $	357.1	361.7	368.2	376.7	389.1	389.1
Negotiable Cert. of Deposits	bil. $	153.3	159.4	164.1	169.9	174.8	174.8
Mortgages at S & L Assns.	bil. $	517.8	520.3	524.2	529.3	536.8	536.8

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	372.7	391.4	398.6	407.2	412.3	402.4
Time Deposits, Adjusted, M2	bil. $	1833.5	1912.6	1932.4	1980.5	2025.4	1962.7
Consumer Instal. Credit	bil. $	366.2	375.1	381.2	390.5	398.4	398.4
Commerc. & Industr. Loans at Banks	bil. $	389.1	396.4	407.0	416.5	425.1	425.1
Negotiable Cert. of Deposits	bil. $	174.8	177.6	182.3	186.2	188.1	188.1
Mortgages at S & L Assns.	bil. $	536.8	543.2	551.7	562.6	569.3	569.3

*Historical Data

in The Wall Street Journal of November 9, 1981.) The KEDI calculations show that a prime rate of about 14 per cent will be reached in the middle of 1982. The lowest rate foreseen (historically not low at all) is 12-13 per cent at the end of 1982. Concerning long-term rates, the forecast here shows slower rates of decline when compared to short-term rates.

For 1982, this Institute predicts that investors will be switching their funds from short-term to long-term investments. This will keep the long-term rates from falling too sharply.

It is anticipated here that Aaa bonds rate will decrease to 11.8 per cent about the middle of next year and edge down to 10.6 by the end of 1982.

Mortgage rates are seen as moving down quite a bit but still remaining historically high. Present rates of 17-18 per cent are forecast as moving down to 14 per cent by mid-year 1982 and to 12-13 per cent by the end of 1982.

KEDI agrees with economists at Mortgage Bankers Association of America that the rates will be in the 14 per cent range by the middle of 1982. The same view was expressed at Crocker National Bank. KEDI does not agree with the publisher of the Crittenden Report, a newsletter on real-estate financing, that there will be fairly sharp drops between Christmas and the middle of January. The declines will not be rapid in mortgage rates.

Relief from high interest rates for consumers is not seen as coming soon. A recent Harris survey showed that people are more concerned about inflation being high than interest rates being way up there. According to the pole of a random sample of Americans, 57 per cent would rather have interest rates of 20 per cent and inflation of 10 per cent than the reverse. It does not mean they like high rates, but see them as the lesser of the two evils and maybe a price that has to be paid to get inflation down.

TABLE 1.80 INTEREST RATES, YIELDS AND SECURITIES PRICES

(Quarterly averages of monthly figures)

Indicator	Unit	1980*	1981				1981
			1 *	2 *	3	4	
3 mo Treas. Bills Rate (new issues)	%	11.51	14.37	14.83	15.05	13.74	14.50
Prime Rate	%	15.10	19.21	18.93	20.32	18.01	19.12
Mortgage Rate, New Homes	%	14.43	15.11	16.54	17.56	16.92	16.53
Aaa Bonds Rate	%	11.94	13.92	13.98	14.34	13.72	13.99
Long Term Govt. Bonds Yield	%	11.39	12.74	13.49	14.50	14.05	13.70
Standard & Poor's 500 Average	1941-43 =10	118.71	131.52	132.81	125.68	128.65	129.67
Indicator	**Unit**	**1981**	**1982**				**1982**
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	14.50	13.40	12.97	12.54	12.02	12.73
Prime Rate	%	19.12	16.17	15.02	14.43	14.01	14.91
Mortgage Rate, New Homes	%	16.53	16.14	15.23	14.31	13.27	14.74
Aaa Bonds Rate	%	13.99	13.04	12.56	12.04	11.65	12.32
Long Term Govt. Bonds Yield	%	13.70	13.22	12.91	12.67	12.14	12.74
Standard & Poor's 500 Average	1941-43 =10	129.67	127.48	129.14	131.56	133.82	130.50
Indicator	**Unit**	**1982**	**1983**				**1983**
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	12.73	12.04	11.61	10.89	10.95	11.37
Prime Rate	%	14.91	13.02	12.87	13.07	13.25	13.05
Mortgage Rate, New Homes	%	14.74	12.70	12.08	12.14	12.45	12.34
Aaa Bonds Rate	%	12.32	11.07	10.89	10.63	10.96	10.86
Long Term Govt. Bonds Yield	%	12.74	12.18	12.10	12.02	12.09	12.10
Standard & Poor's 500 Average	1941-43 =10	130.50	135.87	137.06	140.28	139.73	138.22

* Historical Data

COMPARISONS OF ACCURACY OF PREDICTIONS

The forecast for the stock market remains essentially unchanged in this issue. For the first quarter 1982, slight declines in stocks of companies affected by the economic downturn, are anticipated. The market will recuperate in the second quarter 1982 and will show a strong performance throughout the rest of 1982.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

There was a typing error that was not caught in time in the November issue comparing third quarter GNP estimates. It was correct that KEDI was most accurate in the forecast. The amount of GNP forecast here was 1510.4 (bill.$'72) not 1520.4. (The actual amount was 1508.2.) The oversight is regretted.

In this issue, Index of Industrial Production for the third quarter 1981 has been selected for comparison. The actual figure is from FEDERAL RESERVE Industrial Production, G.12.3, November 13, 1981, Board of Governors of the Federal Reserve System, Washington, D.C. Forecast data are from the Business Forecasts 1981, Federal Reserve Bank of Richmond, Richmond, Virginia, 1981. The following table shows the predictions of forecasters and the deviations from forecast data.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS
(Index of Industrial Production, third quarter 1981, SAAR, 1967 = 100.)

Actual: 153.1

Forecaster	Forecast	Page of Business Forecasts 1981	% of Accuracy
American Statistical Assn. and NBER	149.2	21	-2.5
Ameritrust	147.5	22	-3.7
The First National Bank of Chicago	145.2	24	-5.2
Manufacturers Hanover Trust	145.4	25	-5.0
UCLA	148.9	27	-2.7
WGN Continental Broadcasting Co., Alex Burkholder	145.0	29	-5.3
Bankers Trust	149.6	30	-2.4
Data Resources, Inc.	146.8	32	-4.1
KEDI	152.3	33	-0.0
Fidelity Bank	149.1	34	-2.6
Morgan Guaranty	148.1	35	-2.3
Standard & Poor's	147.3	31	-3.8

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KEDI ECONOMIC SURVEY

JANUARY 1982 ISSUE

OUTLOOK FOR 1982

KENT ECONOMIC
AND DEVELOPMENT
INSTITUTE

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P.O. Box 641/Kent, Ohio 44240/U.S.A.

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Vol. 7, No. 7, January 1, 1982

KEDI ECONOMIC SURVEY

JANUARY 1982 ISSUE

OUTLOOK FOR 1982

President: Vladimir J. Simunek

This updated monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation,Inc. Any comments, suggestions or inquiries should be directed to: KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, Kent Student Center, KSU Campus, Kent, OH 44242, U.S.A. Kent State University Foundation,Inc., and Kent Economic and Development Institute are not liable for any claim based on deviation of forecast data from actual data. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

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Publication No. 018200674
KEDI January 1,1982

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The first part of the year will show some added decline, but the second half will reflect improvement--net result, growth of approximately 0.4 per cent

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Assumptions of this forecast remain unchanged. Updates concern Assumptions No. 1, and 2.

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1.40 HOUSING 16

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1.50 GOVERNMENT BUDGETS 18

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1.60 INCOME 18

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1.70 MONEY AND CREDIT 20

The growth of the money supply will be within the Feds targets during 1982. Credit growth will be moderate.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES 22

Interest rates will edge downward during 1982. Still, in terms of decades of history, the rates will be high.

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It is expected that the combined effect will begin to be seen toward the end of the second quarter of 1982.

In the view of this Institute, a significant improvement in the performance of the economy cannot take place unless the traditional pillars of recovery, namely, the autos and housing industries, resume their more normal growth. No such growth is seen for them by KEDI in 1982.

1.02 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, the changes concern the updates of Assumptions No. 1, and 2.

1. In 1985, all U.S. demands for oil should be met. In 1982, it is expected the weighted price of oil will be $35; in 1983 it will go up to $37 per barrel; in 1984, to $40 per barrel; and in 1985, to $45 per barrel.

2. It is expected, that the Mid East crisis will continue throughout this year, and more normal economic situations,including a significant resumption in the area of oil exports, will take place not earlier than in 1983.

3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1982-85 period. In 1982, some relaxation, and in 1983, tightening is assumed.

4. Increases in state and local taxation in 1982-85 are anticipated. Price and wage controls must remain the last resort of stabilization policy.

5. Our foreign trade with China will gain a substantial momentum in 1982 and following years.

6. In 1982 and 1983 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1984. The years 1984 and 1985 should bring U.S. record crops.

7. It is projected here that the average rates of growth in 1981-85 in the major industrial countries will be as follows for real GNP:

	1981-1985
West Germany	3.0%
Japan	3.4%
Italy	2.4%
Great Britain	2.4%
France	2.8%

8. No drastic changes in existing international relationships are assumed in this forecast.

The January 1982 KEDI forecast is highlighted in Table 1.0 on the following page.

1.10 REAL GROWTH
(Tables 1.10, 1.11, and 1.12 on pages 9, 10, and 11)

In 1982, the output of U.S. factories, mines (excluding coal), and utilities will be at a low level. As measured by the Index of Industrial Production, it will be at the 152.5 level in 1982 which is only 0.4 above the 1981 level. The sectorization of the economy in 1982 is seen in Table 1.11 on page 11. KEDI's forecast for the U.S. industries is the following:

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE

MONTH: January 1982

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1980	1981	1982	1985
Gross National Product	bil. const. 72 $	1480.7	1509.7	1516.3	1750.6
Index of Industrial Production	1967 =100	147.1	152.1	152.5	182.1
Capacity Utilization	%	78.7	79.0	78.1	84.9
Unemployment Rate	%	7.2	7.6	8.1	6.9
Private Housing Starts	mil. units	1.292	1.086	1.026	1.762
Car Sales	mil. units	9.0	8.7	8.3	10.9
Implicit GNP Price Deflator	1972 =100	177.4	193.3	206.6	248.2
Consumer Price Index	1967 =100	246.7	272.2	294.0	351.7
Producer Price Index	1967 =100	246.8	269.4	287.3	351.7
Federal Deficit	bil. $	-62.1	-53.4	-80.1	-31.2
Personal Income	bil. $	2160.2	2395.2	2558.0	3700.1
Prime Rate	%	15.10	19.10	14.47	12.39
Mortgage Rate	%	14.43	16.66	15.06	11.38
Currency plus Demand Deposits	bil. $	376.7	363.7	374.9	415.2
Commercial and Industrial Loans	bil. $	324.9	353.2	390.2	449.5

MINING The production of noncoal mines is expected to drop further in the first half of the year and stabilize at low levels in the second half. Low production of copper, molybdenum, zinc and nickel is expected to persist throughout the year. On the other hand coal mining will show persistent gains mainly due to the increasing production in existing and new mines West of the Mississippi.

NONDURABLE GOODS INDUSTRIES More stable conditions and slow growth are expected in food, tobacco, printing and publishing, and paper and product industries. The other nondurable industries will experience the cyclical downturn during the first half of the year and some recovery in the second half. Production of rubber and products, textile, and apparel will continue the downturn in the first and second quarters. They will start to recuperate very slowly after that time. The sharpest rebound is expected for chemicals, plastics and petroleum products.

DURABLE GOODS INDUSTRIES First, iron and steel production, in general, will continue to decline sharply in the first quarter of 1982 and level off in the second quarter. Slow growth will occur in the remainder of the year. Throughout the year, the industry will remain under pressure from steel imports. Sheets and strip, and pipes and tubes will remain the segments that grow.

Secondly, nonelectrical machinery production and sales will flatten in the first half of the year. In the second half there will be some signs of improvement especially in farm machinery and construction equipment machinery. Electrical machinery, appliances and other household products will continue in a slump throughout the rest of the year. The rebound is expected no earlier then the start of the last quarter of the year.

Third, ordnance and accessories and aerospace and defense industries will be the fastest growing segments of the durable goods sector of the economy. Their persistent, strong growth during the year is projected. (All is not bleak.)

Fourth, lumber, furniture and fixtures, stone, clay and glass industries will remain at low levels throughout the year. The projection shows that they will bottom out in the first quarter of 1982. But, the very small improvements in the rest of the year still equal low levels.

Fifth, the production of transportation vehicles will remain low without any significant gains in the year. Some rebound in auto production is expected to take place in the fourth quarter of that year. The projection shows that the share of imported cars and trucks of total sales will be declining. (That is a tiny bit of good news for U.S. vehicles and those that feel some "buy America" pangs.)

RAILROAD TRANSPORTATION will be affected by lower shipments of iron ore, steel mill products, appliances, wood and and lumber products, textile, and chemicals and products. The overall performance is expected to be slightly above the 1981 year mainly due to the continuous increases in shipments of coal and agricultural products.

TRUCK TRANSPORTATION will remain approximately on the same level as in 1981. Lower shipments of steel mill products, appliances, rubber products, and chemicals will be outweighed by larger requirements for transporting food and kindred products, agricultural products, and chemicals and products.

FOREIGN TRADE The KEDI projection of U.S. foreign trade for 1982 shows slight gains in exports mainly with West European, South American countries, and China. The imports show more rapid increases especially in the second part of the year when the U.S. economy will begin to recuperate from the recession and import larger quantities of raw materials, and oil and related products. However, the balance of trade for the entire year is seen as remaining at the level of 1981 since faster price rises in exported goods are expected to exceed the increases of imports.

1.20 PRICES

(Table 1.20 on page 13)

To accent the positive at the start of this year, the price gains expected here are lower than they have been for the past few years. The KEDI 1982 price outlook follows the general consensus of forecasters. As measured by the Implicit GNP Price Deflator, the overall increase will be 6.9 per cent. A sample of the range of projections is presented here.

Percentage Change in the Implicit GNP
Price Deflator
(Fourth quarter 1982 over the fourth quarter 1981)

Administration's provisional forecast	7.7
Chase Econometrics	8.3
Evans Economic	7.0
Data Resources	7.4
Georgia State	7.8
KEDI	7.6
UCLA	8.2
Wharton	8.2
Merill Lynch Economics	6.6

TABLE 1.10 REAL GROWTH

(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2*	3	4	
Gross National Product, 1972 $	bil. $	1480.7	1516.4	1510.4	1515.8	1496.2	1509.7
Index of Industrial Production	1967=100	147.1	151.8	152.5	153.1	150.8	152.1
Unemployment Rate	%	7.2	7.3	7.4	7.2	8.4	7.6
Capacity Utilization Rate	%	78.7	79.9	79.8	79.3	77.1	79.0
Private Housing Starts	mil. units	1.292	1.361	1.166	.954	.862	1.086
Car Sales	mil. units	9.0	10.2	7.9	9.1	7.6	8.7

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1509.7	1494.2	1506.7	1520.4	1543.7	1516.3
Index of Industrial Production	1967=100	152.1	149.3	151.0	153.0	156.9	152.5
Unemployment Rate	%	7.6	8.8	8.4	7.7	7.5	8.1
Capacity Utilization Rate	%	79.0	76.5	77.2	78.3	80.5	78.1
Private Housing Starts	mil. units	1.086	.889	.980	1.047	1.189	1.026
Car Sales	mil. units	8.7	7.4	8.0	8.9	8.7	8.3

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1516.3	1562.3	1586.3	1608.4	1627.5	1596.1
Index of Industrial Production	1967=100	152.5	162.6	167.5	171.2	174.3	168.9
Unemployment Rate	%	8.1	7.1	7.0	6.9	6.6	6.9
Capacity Utilization Rate	%	78.1	82.2	84.4	86.1	86.9	84.9
Private Housing Starts	mil. units	1.026	1.220	1.404	1.513	1.572	1.427
Car Sales	mil. units	8.3	8.8	9.3	9.9	9.8	9.5

* Historical Data

TABLE 1.11 SELECTED COMPONENTS OF THE INDEX OF INDUSTRIAL PRODUCTION

(1967 = 100.)

Industry Grouping	1981:4	1982:1	1982:2	1982:3	1982:4	1982
Mining	143.2	143.5	143.8	144.7	145.1	144.3
Coal Mining	162.7	163.4	165.2	167.3	169.2	166.3
Utilities	167.2	166.8	167.2	167.8	168.9	167.7
Nondurables						
Foods	151.7	152.2	153.0	153.9	154.2	153.3
Textile Mill Prod.	132.8	132.6	133.0	133.7	134.3	133.4
Apparel Products	121.2	121.0	121.5	121.9	122.0	121.6
Paper and Products	151.7	151.0	151.3	152.4	153.5	152.1
Printing and Publ.	146.0	146.4	146.9	147.5	147.7	147.1
Chemicals and Prod.	210.5	208.7	212.4	215.6	218.9	213.9
Petroleum Prod.	125.9	125.4	125.7	125.5	127.3	126.2
Rubber and Plastics	269.4	267.3	269.5	271.4	273.8	270.5
Durables						
Ordnance	83.4	84.2	86.3	88.2	90.5	87.3
Lumber Products	105.1	103.2	103.8	104.5	104.9	104.1
Furniture & Fixt.	155.3	151.0	150.4	151.8	153.2	151.6
Clay, Glass, and Stone Products	140.5	138.7	139.1	139.9	143.1	140.2
Primary Metals	97.2	95.4	96.0	97.0	99.4	97.0
Fabricated Metal Products	128.2	126.3	126.5	128.2	128.8	127.5
Nonelectr. Machinery	167.4	165.3	166.2	168.4	169.3	167.3
Electr. Machinery	172.8	169.8	170.4	172.5	174.7	171.9
Transport. Equipm.	100.1	98.7	99.8	100.4	101.5	100.1
Instruments	165.2	163.4	163.5	165.2	166.8	164.7

TABLE 1.12 GNP AND COMPONENTS IN CURRENT DOLLARS

(bill.$,SAAR)

Indicator	1981:4	1982:1	1982:2	1982:3	1982:4	1981	1982
Gross Natl. Product	2975.6	3008.2	3090.8	3163.5	3270.0	2919.9	3133.1
Pers.Cons. Expendit.	1879.4	1896.5	1944.0	1971.6	2034.7	1850.6	1961.7
Durables	230.4	230.8	236.8	248.1	268.0	232.9	245.9
Nondur.	754.5	761.4	778.2	786.5	814.3	725.6	785.1
Services	894.5	904.3	929.0	937.0	952.4	892.1	930.7
Gross Pvt. Dom.Investm.	465.7	466.9	479.4	501.8	520.8	456.1	492.2
Fixed Inv.	437.1	441.1	461.0	481.5	497.1	435.2	470.2
Nonresid.	337.0	342.3	355.6	366.4	378.8	327.7	360.7
Structures	128.8	126.9	131.3	135.6	140.1	125.3	133.5
Dur.Equip.	208.2	215.4	224.3	230.8	238.7	202.4	227.2
Resident.	100.1	98.8	105.4	115.1	119.3	107.5	109.6
Change in Invent.	28.6	25.8	18.4	20.3	23.7	19.9	22.1
Net Exports	27.3	25.0	31.9	34.0	37.9	29.7	32.2
Exports	369.4	371.9	383.8	390.2	397.4	369.6	385.8
Imports	342.1	346.9	351.9	356.2	359.5	339.9	353.7
Federal and State and Local Cons.	603.2	623.8	637.5	654.1	672.7	583.5	647.0
Federal	236.4	244.5	250.7	259.3	266.3	224.6	255.2
State and Local	366.8	379.3	386.8	394.8	406.4	358.9	647.0

During 1982, the main contributors to the slowdown in price gains will be as follows:

1. Prices of agricultural products will go up at a slower rate due to the large harvest in 1981 and the bumper crops expected in 1982. Such prices are forecast as increasing by roughly 4 per cent as measured by the CPI.

2. There will be a flattening of prices for gasoline and very slow gains for electricity.

3. The prices of apparel and shoes will gain by a comparatively low rate of approximately 5 per cent.

4. Housing costs will likely go up by 7-8 per cent.

5. Price increases that will be above the expected general level will include the capital goods industries with machinery going up by roughly 9 per cent and defense goods by about 10 per cent. In the area of consumer goods, medical services are seen by KEDI as gaining 10 per cent, and transportation rising 7 per cent.

6. Natural gas prices will increase more than the average inflation rate, due to the anticipated accelerated deregulation and the added tax on the sales of this product.

1.30 EMPLOYMENT AND LABOR
(Table 1.30 on page 15)

This Institute's projection of the unemployment rate for 1982 belongs in the lowest category when compared with others:

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE

Month: January 1982

TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2*	3	4	
Consumer Price Index, NSA	1967= 100	246.7	262.9	269.7	275.3	280.9	272.2
Producer Price Index, NSA **	1967= 100	246.8	263.4	269.4	271.2	273.4	269.4
Implicit GNP Price Deflator	1972= 100	177.4	188.1	191.1	195.3	198.7	193.3
Gross National Product	bil. $	2626.1	2853.0	2885.8	2665.0	2975.6	2919.9
Personal Consump Expenditures	bil. $	1672.8	1810.1	1829.1	1883.9	1879.4	1850.6
Gross Private Dom. Investment	bil. $	395.3	437.1	458.6	463.0	465.7	456.1

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Consumer Price Index, NSA	1967= 100	272.2	283.4	291.0	296.7	305.9	294.0
Producer Price Index, NSA**	1967= 100	269.4	279.1	283.6	289.9	296.4	287.3
Implicit GNP Price Deflator	1972= 100	193.3	201.3	205.1	208.1	211.8	206.6
Gross National Product	bil. $	2919.9	3008.2	3090.8	3163.5	3270.0	3133.1
Personal Consumpt Expenditures	bil. $	1850.6	1896.5	1944.0	1971.6	2034.7	1961.7
Gross Private Dom. Investment	bil.$	456.1	466.9	479.4	501.8	520.8	492.2

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Consumer Price Index, NSA	1967= 100	294.0	310.0	315.9	322.9	328.5	319.3
Producer Price Index, NSA **	1967= 100	287.3	304.3	312.5	319.1	324.7	315.2
Implicit GNP Price Deflator	1972= 100	206.9	216.4	220.1	225.0	229.5	222.8
Gross National Product	bil. $	3133.1	3380.2	3491.6	3619.5	3734.6	3556.5
Personal Consump Expenditures	bil. $	1961.7	2103.4	2182.1	2271.8	2372.5	2232.5
Gross Private Dom. Investment	bil. $	492.2	546.5	570.1	558.4	600.7	575.7

*Historical Data

**Finished Goods

	Unemployment Rate (in %, 1982 average)
Administration	8.4
Chase Econometrics	8.6
Evans Economic	8.1
Data Resources	8.6
KEDI	8.1
Georgia State	8.4
UCLA	8.9
Michigan	8.4
Wharton Econometrics	8.9

In KEDI's forecast, the rate of unemployment will peak at about 9.0 per cent in the February-March period. Then it will gradually decline throughout the rest of the year. The projection shows that unemployment will be spread among the majority of industries in the first quarter of the year.. In the second quarter, substantial improvements are expected in steel, commercial construction, chemicals and products, and nonelectrical machinery. The forecast shows that in the first half of the year, the number of unemployed persons in housing, construction, rubber and plastic products, textile mill products, apparel, lumber and products, furniture and fixtures, clay, stone and glass products, and motor vehicles will still be unacceptable high.

In the second half of the year, substantial improvements are expected in electrical machinery, fabricated metal products, steel, rubber and plastics, chemicals, and service industries. Throughout the year, the projection shows average employment in food, paper and products, and printing and publishing industries. Industries with high employment will be coal mining, oil and gas extraction, petroleum products, aerospace, ordnance and accessories, and defense industries.

TABLE 1.30 EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2*	3	4	
Population	mil.	223.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	104.7	105.8	106.1	106.4	107.1	106.4
Employed	mil.	97.1	98.0	98.3	98.7	98.1	98.3
- Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
- Non Agriculture	mil.	94.1	94.7	95.0	95.3	94.8	95.0
Unemployment Rate	%	7.19	7.34	7.37	7.24	8.43	7.60

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Population	mil.	225.9	228.0	229.2	230.4	231.4	229.6
Civilian Labor Force	mil.	106.4	108.0	108.7	109.5	110.7	109.2
Employed	mil.	98.3	98.4	99.5	100.9	102.4	100.3
- Agriculture	mil.	3.3	3.4	3.4	3.3	3.3	3.4
- Non Agriculture	mil.	95.0	95.0	96.1	97.6	99.1	97.0
Unemployment Rate	%	7.60	8.81	8.42	7.74	7.54	8.13

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Population	mil.	229.6	231.5	232.2	232.9	233.4	232.5
Civilian Labor Force	mil.	109.2	111.9	113.0	113.4	114.2	113.1
Employed	mil.	100.3	103.9	105.1	105.6	106.6	105.4
- Agriculture	mil.	3.4	3.3	3.4	3.3	3.4	3.4
- Non Agriculture	mil.	97.0	100.6	101.7	102.3	103.3	102.0
Unemployment Rate	%	8.13	7.14	6.97	6.89	6.64	6.91

* Historical Data

1.40 HOUSING
(Table 1.40 on page 17)

The KEDI projection for 1982 shows that this sector of the economy will remain in the doldrums throughout the year. The forecast is shown in Table 1.40.

In the last quarter of 1981, housing reached the bottom. The slight November increase in housing starts to 871,000 from the October level of an annual adjusted rate of 864,000 signals that the worst is over. The forecast by this Institute is that housing starts will remain at about the same level in the first quarter of 1982 as they were in the last quarter of 1981. Every quarter after that will post slight gains. However the expected total of housing starts in 1982 of 1.1 million units will still be far below a more normal level of 1.8 million units annually.

The outlook for the sales of homes is a bit brighter. This Institute forecasts a significant recuperation in the sale of homes. The view of the chief economist for the Mortgage Bankers Association of America, Thomas Harter, is shared here. Sales of new homes will begin to move upward more sharply in the second quarter as mortgage rates move down another percentage or two.

The forecast of mobile home sales is optimistic. KEDI anticipates such sales will rise 8 per cent in 1982 over the prior year level. Mobile home sales were the only aspect of the housing industry to experience a gain in 1981. Such sales went up 6 per cent over 1980. In comparison, modular home sales were off by 7 per cent and site-built house sales were down 16 per cent in that time.

TABLE 1.40 HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2*	3	4	
Single-Family Housing Starts	mil.	.860	.850	.775	.639	.542	.701
Multifamily Housing Starts	mil.	.473	.511	.391	.315	.320	.384
Mobile Home Shipments	mil.	.222	.248	.255	.244	.210	.239
Housing Permits Issued	mil.	1.117	1.177	1.105	.874	.828	.996
Construction Costs-Commerc.	1972=100	198.5	208.7	214.6	218.9	224.0	216.6
Construction Costs-Resident.	1972=100	198.6	209.5	215.1	217.8	224.2	216.7

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Single-Family Housing Starts	mil.	.701	.521	.590	.619	.699	.607
Multifamily Housing Starts	mil.	.384	.368	.390	.428	.490	.419
Mobile Homes Shipments	mil.	.239	.220	.247	.276	.289	.258
Housing Permits Issued	mil.	.996	.762	.837	.961	1.084	.911
Construction Costs-Commerc.	1972=100	216.5	228.5	239.4	246.5	254.1	242.1
Construction Costs-Resident.	1972=100	216.7	227.8	237.2	242.4	244.1	237.9

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Single-Family Housing Starts	mil.	.607	.730	.841	.865	.916	.838
Multifamily Housing Starts	mil.	.419	.490	.563	.648	.656	.589
Mobile Homes Shipments	mil.	.258	.306	.347	.369	.342	.341
Housing Permits Issued	mil.	.911	1.172	1.395	1.524	1.614	1.426
Construction Costs-Commerc.	1972=100	242.1	257.4	268.9	278.1	286.2	272.7
Construction Costs-Resident.	1972=100	237.9	256.9	270.4	282.7	284.0	273.5

* Historical Data

1.50 GOVERNMENT BUDGETS
(Table 1.50 on page 19)

The projection of the Federal budget deficits have been substantially increased when compared to the previous issue. Currently, the data for the calendar years are as follows:

1982	-$80 billion
1983	-$69 billion
1984	-$51 billion

These figures are still tentative. It is highly uncertain at this time just what new tax package and budget slashing ideas the Administration will propose this month and just how they will be received in Congress. In this projection, an additional $30 billion in tax receipts from indirect taxes, mainly on liquor, tobacco, and natural gas are assumed, plus roughly $ 40 billion more in budget cuts, mainly in the Departments of Energy, Education, and the entitlement programs.

KEDI agrees with Murray Weidenbaum of the President's Council of Economic Advisers that the Administration will be able to cut spending enough to hold the deficits under $100 billion.

As concerns state and local budgets, permanent increases in state and local taxation are anticipated as the result of the expected reductions in the federal aid to states.

1.60 INCOME
(Table 1.60 on page 21)

The forecast of personal income for 1982 shows the leveling in the first quarter, slight increases in the second quarter, and a bit more of growth in the second half of the year. The main component

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2*	3	4	
Federal Govt.:							
Income Taxes	bil. $	257.8	283.3	293.1	306.4	309.1	298.1
Corporate Profit Tax Accruals	bil. $	70.1	74.6	63.3	66.4	66.8	67.8
Surplus./Deficit	bil. $	-61.2	-46.6	-50.0	-55.7	-61.1	-53.4
State and Local Governments:							
Income Taxes	bil. $	80.7	88.6	89.7	93.3	94.8	91.6
Corporate Profit Tax Accruals	bil. $	12.2	13.1	11.6	11.7	12.2	12.2
Surplus./Deficit	bil. $	29.1	36.9	36.0	37.8	37.5	37.1

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	298.1	311.7	315.8	316.2	319.9	315.9
Corporate Profit Tax Accruals	bil. $	67.8	67.1	72.3	75.7	77.8	73.2
Surplus./Deficit	bil. $	-53.4	-64.2	-67.6	-96.5	-92.0	-80.1
State and Local Governments:							
Income Taxes	bil. $	91.6	98.8	101.7	104.9	106.9	103.1
Corporate Profit Tax Accruals	bil. $	12.2	12.8	13.6	14.1	15.3	14.0
Surplus./Deficit	bil. $	37.1	37.4	37.1	37.0	36.3	38.0

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	315.9	330.4	351.2	352.2	357.3	347.8
Corporate Profit Tax Accruals	bil. $	73.2	82.4	90.6	117.3	126.5	99.5
Surplus./Deficit	bil. $	-80.1	-72.5	-59.3	-80.4	-65.4	-69.4
State and Local Governments:							
Income Taxes	bil. $	103.1	110.9	114.1	116.0	118.3	114.8
Corporate Profit Tax Accruals	bil. $	14.0	15.9	17.1	18.2	18.9	17.5
Surplus./Deficit	bil. $	38.0	36.1	35.4	35.3	34.4	35.3

* Historical Data

of personal income -- compensation of employees -- shows slower rates of growth than that of personal income overall. KEDI's projection reflects the slowdown in wage gains in 1982. Still, allowing for inflation, there is no real gain here.

It is expected here that there will be an average gain of 8 per cent in wages which is lower than the average of 10 per cent in 1980 and 1981. Contract negotiations with truckers, rubber, chemicals, and construction workers will yield lower wage hikes as compared to contracts concluded in previous years.

The projection of corporate after tax profits shows a significant decline in the first quarter of 1982 and steady increases in the second half of the year. The fastest relative recuperation is seen for chemicals, plastics, paper, nonelectrical machinery, and some segments of the construction industry.

1.70 MONEY AND CREDIT

(Table 1.70 on page 23)

This Institute's projection of the basic money supply known as M1-B shows a gain of 4.5 per cent when measured as the 1982 year average over the 1981 average. It is expected that generally tight Federal Reserve monetary and credit policy will prevail throughout the year. More specifically, KEDI assumes that the Federal Reserve policy will be easing moderately in the first half of the year, some stabilization in the middle of the year, and tightening in the fourth quarter. It is assumed that the projected increase of M1-B will be within the 3-5 per cent growth targets anticipated as acceptable by the Federal Reserve.

TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2*	3	4	
Personal Income	bil. $	2160.2	2319.8	2368.5	2441.7	2450.9	2395.2
Personal Dispos. Income	bil. $	1821.7	1947.8	1985.6	2042.0	2047.0	2005.6
Compensation of Employees	bil. $	1596.5	1722.4	1752.0	1790.7	1801.2	1766.6
Corp. Profits After Tax	bil. $	163.1	169.2	152.7	156.3	149.2	156.9
Personal Saving	bil. $	101.3	88.9	106.6	106.9	103.1	101.4
Average Weekly Earnings	$	297.4	310.7	316.9	318.6	321.7	317.0

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Personal Income	bil. $	2395.2	2460.3	2520.7	2581.3	2669.7	2558.0
Personal Dispos. Income	bil. $	2005.6	2049.8	2103.2	2160.2	2242.9	2139.0
Compensation of Employees	bil. $	1766.6	1808.3	1840.1	1905.8	1969.4	1880.8
Corp. Profits After Tax	bil. $	156.9	148.4	156.7	170.3	182.8	164.6
Personal Saving	bil. $	101.4	101.4	104.7	113.1	116.2	108.9
Average Weekly Earnings	$	317.0	324.0	329.1	336.4	345.7	333.8

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Personal Income	bil. $	2558.0	2859.6	2849.7	2940.6	3052.7	2925.7
Personal Dispos. Income	bil. $	2139.0	2418.3	2384.4	2472.4	2577.1	2463.1
Compensation of Employees	bil. $	1880.8	2028.2	2081.3	2152.6	2225.4	2121.9
Corp. Profits After Tax	bil. $	164.6	191.7	200.5	214.3	220.8	206.8
Personal Saving	bil. $	108.9	117.7	118.4	121.7	124.5	120.6
Average Weekly Earnings	$	333.8	350.6	362.0	371.1	380.5	366.1

*Historical Data

In 1982, consumer loans, mainly auto and loans for other consumer durables, are expected to grow moderately throughout the year. Large increments are anticipated in the categories of noninstallment credit mainly in the last six months of the year.

The demand for commercial and industrial loans will be increasing throughout 1982 with substantial increments in the third and fourth quarters of the year.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 24)

In 1982, interest rates will decline by small increments. However, the level of interest rates will remain generally high when viewed historically. KEDI projects that the prime rate, as an average for 1982, will be 14.47 per cent. That is close to the projection of most others, such as Chase Econometrics with 15.10 per cent (The New York Times, December 28, 1981 page 25.) This Institute also agrees with Treasury Secretary Regan in the view that interest rates will be not as high in '82 as they have been in '81. KEDI does not agree with Townsend-Greenspan's forecast of 11.90 per cent. The projection of 13 per cent for the average prime rate in 1982 by the U.S. Chamber of Commerce is also seen as too low by KEDI.

The general direction of interest rates will be downwards. The view of Mr.Kaufman of Salomon Brothers that these rates will shoot up again in the third quarter of 1982 is seen as off the mark. In the view of this Institute, the main reason why rates will not go up and why they will show some decline is the expected growth of savings.

It is projected here that savings will go up substantially during 1982--both on the part of households and other sectors of the economy. That means there will be more funds available for financing the needs of businesses and the federal government. Calculations show that despite large borrowing needs of the federal government, there will be enough funds for business and other borrowers. Consequently, no upwards pressures on interest rates on the financial markets are expected.

Concerning the long-term rates, the forecast shows slower declines when compared with short-term rates. Mortgage rates will continue to decline, however, from the present 16 per cent range to the 14 per cent range by the end of 1982. No substantial drops in rates on consumer installment loans, government long-term obligations, and other long-term instruments are projected.

The projection of the stock market is optimistic. As measured by the Dow Jones Industrial Average and Standard and Poor's 500, the market will have a stable performance with an upwards trend. KEDI views the fastest growing stocks as those mainly in the following industries: defense, plastics, aerospace, new technologies in electronics, medical, and biology fields, chemicals, and some segments of nonelectrical machinery.

TABLE 1.70 MONEY AND CREDIT

(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1980*	1981				1981
			1*	2*	3	4	
Currency + Demand Deposits, M1A	bil. $	367.7	365.8	364.5	361.1	363.1	363.7
Time Deposits, Adjusted, M2	bil. $	1601.0	1718.4	1743.6	1774.6	1802.7	1759.8
Consumer Instal. Credit	bil. $	313.4	310.8	318.5	328.3	336.5	336.5
Commerc. & Industr. Loans at Banks	bil.$	324.9	332.3	340.6	349.8	353.2	353.2
Negotiable Cert. of Deposits	bil. $	129.2	132.4	136.7	143.1	156.7	156.7
Mortgages at S & L Assns.	bil. $	502.8	507.2	514.8	518.1	520.4	520.4

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	363.7	366.4	372.5	376.9	383.7	374.9
Time Deposits, Adjusted, M2	bil. $	1759.8	1819.6	1831.6	1850.5	1872.4	1843.5
Consumer Instal. Credit	bil. $	336.5	343.1	350.9	354.6	366.8	366.8
Commerc. & Industr. Loans at Banks	bil. $	353.2	360.9	368.5	377.4	390.2	390.2
Negotiable Cert. of Deposits	bil. $	156.7	162.1	167.3	174.5	178.1	178.1
Mortgages at S & L Assns.	bil. $	520.4	524.8	528.7	534.4	540.5	540.5

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	374.9	393.6	402.5	411.8	416.8	406.4
Time Deposits, Adjusted, M2	bil. $	1843.5	1902.7	1921.5	1953.2	1986.7	1941.0
Consumer Instal. Credit	bil. $	366.8	375.7	381.9	390.2	399.5	399.5
Commerc. & Industr. Loans at Banks	bil. $	390.2	398.7	410.5	419.7	429.5	429.5
Negotiable Cert. of Deposits	bil. $	178.1	180.3	185.1	189.7	193.4	193.4
Mortgages at S & L Assns.	bil. $	540.5	546.2	554.8	564.7	570.2	570.2

*Historical Data

TABLE 1.80 INTEREST RATES, YIELDS AND SECURITIES PRICES

(Quarterly averages of monthly figures)

Indicator	Unit	1980*	1981				1981
			1*	2*	3	4	
3 mo Treas. Bills Rate (new issues)	%	11.51	14.37	14.83	15.05	12.28	14.13
Prime Rate	%	15.10	19.21	18.93	20.32	17.92	19.10
Mortgage Rate, New Homes	%	14.43	15.11	16.54	17.56	17.42	16.66
Aaa Bonds Rate	%	11.94	13.92	13.98	14.92	13.49	14.08
Long Term Govt. Bonds Yield	%	11.39	12.74	13.49	14.50	14.19	13.73
Standard & Poor's 500 Average	1941-43 =10	118.71	131.52	132.81	125.68	124.58	128.65
Indicator	Unit	1981	1982				1982
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	14.13	11.94	11.76	11.58	11.09	11.59
Prime Rate	%	19.10	15.48	14.65	13.84	14.01	14.47
Mortgage Rate, New Homes	%	16.66	16.34	15.89	14.42	13.57	15.06
Aaa Bonds Rate	%	14.08	13.01	12.61	12.11	11.79	12.38
Long Term Govt. Bonds Yield	%	13.73	14.02	13.75	13.42	13.16	13.59
Standard & Poor's 500 Average	1941-43 =10	128.65	126.48	128.24	131.61	133.94	130.07
Indicator	Unit	1982	1983				1983
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	11.59	11.56	11.83	11.92	12.04	11.84
Prime Rate	%	14.47	14.35	14.52	14.76	14.81	14.61
Mortgage Rate, New Homes	%	15.06	12.74	12.32	12.03	12.42	12.38
Aaa Bonds Rate	%	12.38	11.14	10.98	11.47	11.86	11.36
Long Term Govt. Bonds Yield	%	13.59	13.34	13.15	13.58	13.87	13.49
Standard & Poor's 500 Average	1941-43 =10	130.07	135.78	137.16	140.32	139.78	138.26

* Historical Data

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KEDI ECONOMIC SURVEY

FEBRUARY 1982 ISSUE

KENT ECONOMIC
AND DEVELOPMENT
INSTITUTE

P.O. Box 641/Kent, Ohio 44240/U.S.A.

BEST AVAILABLE COPY

Vol. 7, No. 8, February 1, 1982

KEDI ECONOMIC SURVEY

FEBRUARY 1982 ISSUE

President: Vladimir J. Simunek

This updated monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation,Inc. Any comments, suggestions or inquiries should be directed to: KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, Kent Student Center, KSU Campus, Kent, OH 44242, U.S.A. Kent State University Foundation,Inc., and Kent Economic and Development Institute are not liable for any claim based on deviation of forecast data from actual data. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

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Publication No. 028200684
KEDI February 1,1982

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KENT ECONOMIC AND
DEVELOPMENT INSTITUTE February 1, 1982

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2.0 COMPARISONS OF ACCURACY OF PREDICTIONS-INDEX OF INDUSTRIAL PRODUCTION 23

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KENT ECONOMIC AND
DEVELOPMENT INSTITUTE February 1, 1982

1.00 OVERVIEW AND ASSUMPTIONS

1.01 OVERVIEW

KEDI's basic outlook for the U.S. economy remains unchanged. This year is seen as one of recession in the first part and the start of recovery in the latter half.

The view that the economy will begin to recuperate in the second part of the year is shared with the majority of forecasters and the Administration. The 5-6 per cent growth rate expected in Washington as the prevailing rate in the last six months of this year is seen here as unrealistic. This Institute anticipates a more modest rate of 3-4 per cent in that period.

There are three main reasons for the view of modest growth in the second part of the year. First, two very essential segments of the United States economy; namely, housing and car production will still be far below normal levels in the latter part of this year. Consequently, they will not be able to provide an upward zesty push for the economy as has been the case in former recoveries.

Secondly, the interest rates forecast, though lower than in 1981, will still be too high due to restrictive monetary and credit policies to cause any robust capital outlayss or inventory buildup. It is assumed here that relatively high rates will prevail throughout the year. A prime rate of 14 or 15 per cent instead of rates of up to 20 per cent that have existed last year is an improvement, but it is not enough to send business running off to the bank waving loan applications to finance expansion or additional purchasing.

Third, the old war horse (to play on words) that will be pulling the economy out of the recession will be defense spending. However, massive though defense spending might be, it does not stimulate all of the economy. Certainly, it has an impact on machinery, electronics, steel, ordnance and accessories, aerospace, and related industries. Its impact on typical civilian areas such as cars, housing, lumber, and appliances, to name a few, is secondary. That secondary impact is not felt until there has been quite a lag.

Calculations show that the June, 1982 income tax cut will be felt primarily in increased savings and in the durable goods areas such as autos and housing, to a lesser extent. Still, the impact will be moderated by higher state and local taxes and higher social security taxes.

In summary, the latter part of 1982 will reflect some recovery, but it will not be as strong as the Administration and some economists are projecting. The forecast by KEDI that has been maintained for months is that recovery will be slow. More widespread and robust growth will not take place before 1983 and the following years.

1.02 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, the changes concern the updates of Assumptions No.3, and No.7.

ASSUMPTIONS

1. In 1985, all U.S. demands for oil should be met. In 1982, it is expected the weighted price of oil will be $35; in 1983 it will go up to $37 per barrel; in 1984, to $40 per barrel; and in 1985, to $45 per barrel.

2. It is expected, that the Mid East crisis will continue throughout this year, and more normal economic situations, including a significant resumption in the area of oil exports, will take place not earlier than in 1983.

3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1982-85 period. In 1982, some relaxation, and in 1983-84; tightening is assumed.

4. Increases in state and local taxation in 1982-85 are anticipated.

5. Our foreign trade with China will gain a substantial momentum in 1982 and following years.

6. In 1982 and 1983 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1984. The years 1984 and 1985 should bring U.S. record crops.

7. It is projected here that the average rates of growth in 1982-1985 in the major industrial countries will be as follows for real GNP:

	1982-1985
West Germany	3.1%
Japan	3.3%
Italy	2.2%
Great Britain	2.1%
France	2.4%

REAL GROWTH

8. No drastic changes in existing international relationships are assumed in this forecast.

The February 1982 KEDI forecast is highlighted in Table 1.0 on the following page.

1.10 REAL GROWTH
(Table 1.10 on page 7)

The forecast by KEDI is maintained. The first quarter of 1982 will show some further declines in economic activity and a bottoming out of the recession. During the second quarter, the performance will be essentially flat with a few faint glimmers of recovery. In the third quarter, the economy will begin to brighten slowly. However, no robust growth is expected. It is the last quarter of 1982 that will show more widespread and slightly faster rates of recovery. The growth for the year will average just 0.2 per cent.

There are some signs the recession is near the bottom of the pit.

First, there was an increase in durable goods orders--nothing spectacular but a gain just the same. Such orders went up 1.6 per cent in December from the prior month. November also posted a bit of monthly gain which was revised by the Commerce Department from 1.1 to 1.8 per cent recently. The rise was not evenly spread as new orders for nondefense capital goods were down by 2.1 per cent, seasonally adjusted from the November level. It will be the defense

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KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1981	1982	1985	1986
Gross National Product	bil. const. 72 $	1509.5	1516.9	1750.4	1829.5
Index of Industrial Production	1967 =100	150.9	148.9	180.3	186.2
Capacity Utilization	%	79.0	76.8	82.4	83.1
Unemployment Rate	%	7.6	8.6	6.9	6.9
Private Housing Starts	mil. units	1.099	1.080	1.742	1.873
Car Sales	mil. units	8.7	8.0	10.1	10.5
Implicit GNP Price Deflator	1972 =100	193.6	206.5	245.3	249.9
Consumer Price Index	1967 =100	272.2	292.0	257.8	372.1
Producer Price Index	1967 =100	269.4	287.3	350.2	361.3
Federal Deficit	bil. $	-54.0	-84.4	-34.5	-28.7
Personal Income	bil. $	2403.6	2562.0	3070.2	3294.6
Prime Rate	%	18.90	14.91	13.26	13.12
Mortgage Rate	%	16.65	15.24	11.43	11.27
Currency plus Demand Deposits	bil. $	364.5	378.2	426.5	436.7
Commercial and Industrial Loans	bil. $	361.4	367.3	469.8	481.5

orders that keep the totals edging upward overall. It is an important point: defense spending will lead us out of the slump. Civilian orders have declined and will move down a bit further in the first quarter of this year.

Secondly, retail sales managed not to show a decline in December. Such sales crept forward by 0.4 per cent in December over the November level on an adjusted basis. On a year-to-year comparison, the sales were up just 5.8 per cent. As that figure is not adjusted for the decline in the purchasing power of the dollar during the year, it is a cheerful view at best to even lable that as flat in real terms. This Institute does not expect any dramatic decline during January but does expect some continued weakness. Small increments of sales gains will begin to show by March. More significant growth is anticipated in the second half of the year. KEDI agrees with Otto Eckstein of Data Resources that until the tax cut is realized in July, personal income will not change much. Hence, retail sales will be pretty much in a holding pattern.

Thirdly, housing starts are beginning to show signs that they will not move downward any further. Data for the last two months of 1981 point to the hesitant beginning of a slow turnaround. Housing starts in December did go up over the November level. Building permits issued also rose, and sales of new homes are picking up.

These are areas showing hints of recovery are being more than balanced by sectors reflecting flatness or some decline. Overall, as was stated, 1982 will be a year of miniscule growth.

TABLE 1.10 REAL GROWTH
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2*	3	4	
Gross National Product, 1972 $	bil. $	1480.7	1516.4	1510.4	1515.8	1495.6	1509.5
Index of Industrial Production	1967= 100	147.1	151.8	152.5	153.0	146.3	150.9
Unemployment Rate	%	7.2	7.3	7.4	7.2	8.4	7.6
Capacity Utilization Rate	%	78.7	79.9	79.8	79.3	76.8	79.0
Private Housing Starts	mil. units	1.292	1.361	1.166	.968	.903	1.099
Car Sales	mil. units	9.0	10.2	7.9	9.1	7.4	8.7

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1509.5	1491.7	1501.2	1517.2	1537.4	1511.9
Index of Industrial Production	1967= 100	150.9	144.8	146.7	150.1	153.8	148.9
Unemployment Rate	%	7.6	9.6	9.1	8.2	7.6	8.6
Capacity Utilization Rate	%	79.0	74.3	75.1	77.8	79.9	76.8
Private Housing Starts	mil. units	1.099	.949	1.020	1.165	1.186	1.080
Car Sales	mil. units	8.7	7.4	7.8	8.5	8.3	8.0

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1511.9	1559.7	1583.1	1602.3	1623.2	1592.1
Index of Industrial Production	1967= 100	148.9	157.5	162.0	167.6	171.5	164.7
Unemployment Rate	%	8.6	7.4	7.3	7.0	7.0	7.2
Capacity Utilization Rate	%	76.8	81.2	83.3	85.2	85.9	83.9
Private Housing Starts	mil. units	1.080	1.254	1.504	1.609	1.643	1.503
Car Sales	mil. units	8.0	8.5	9.1	9.6	9.3	9.1

* Historical Data

PRICES

1.20 PRICES
(Table 1.20 on page 9)

The KEDI projection for the increase in the Consumer Price Index for 1982 has been somewhat lowered. Instead of a forecast of 8 per cent, it is now 7.5 per cent. The reason is that the December gain in the CPI was smaller than anticipated. Such prices were at 281.5 per cent of the 1967 average in December. The November level was 280.7. KEDI has also revised downwards the projected price increases in food items and costs of housing. The relative good news here is that the double digit rates of recent years are going to be behind us.

Presented here are the projected price changes in 1982 for selected consumer items as calculated by this Institute. The double digit items that remain are natural gas and medical care.

Projected Price Changes in 1982 in Selected Items

Bread	3.5%
Milk	3.5%
Pork	4.0%
Beef	4.3%
Transportation	5.0%
Clothing	5.2%
Vegetables	6.0%
Furniture	6.0%
Heating oil	7.0%
New House	7.1%
Automobiles	8.5%
Electricity	9.0%
Medical Care	10.8%
Natural Gas	13.2%

TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data are
seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2*	3	4	
Consumer Price Index, NSA	1967=100	247.9	262.9	269.7	275.3	280.7	272.2
Producer Price Index, NSA **	1967=100	246.8	263.4	269.4	271.2	274.6	269.7
Implicit GNP Price Deflator	1972=100	177.4	188.1	191.1	195.3	199.6	193.6
Gross National Product	bil. $	2626.1	2853.0	2885.8	2965.0	2984.8	2922.2
Personal Consump Expenditures	bil. $	1672.8	1810.1	1829.1	1883.9	1909.5	1858.2
Gross Private Dom. Investment	bil. $	395.3	437.1	458.6	463.0	443.6	456.1

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Consumer Price Index, NSA	1967=100	272.2	283.4	288.9	294.3	301.2	292.0
Producer Price Index, NSA**	1967=100	269.7	277.3	282.1	287.0	291.2	284.4
Implicit GNP Price Deflator	1972=100	193.6	202.8	205.0	207.2	210.8	206.5
Gross National Product	bil. $	2922.3	3025.8	3077.9	3143.2	3241.5	3122.1
Personal Consumpt Expenditures	bil. $	1858.2	1928.4	1944.2	1961.5	2012.5	1961.7
Gross Private Dom. Investment	bil.$	456.1	458.7	470.2	490.7	518.4	484.5

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Consumer Price Index, NSA**	1967=100	292.0	307.6	313.1	318.7	324.9	316.1
Producer Price Index, NSA	1967=100	284.4	300.1	308.6	315.2	320.4	311.1
Implicit GNP Price Deflator	1972=100	206.5	215.2	218.6	223.0	226.9	220.9
Gross National Product	bil. $	3122.1	3355.9	3460.8	3573.8	3682.6	3518.2
Personal Consump Expenditures	bil. $	1961.7	2084.2	2167.5	2234.7	2338.4	2206.2
Gross Private Dom. Investment	bil. $	484.5	543.2	561.5	576.5	592.4	575.7

*Historical Data
**Finished Goods

PRICES

The projection shows that most of the prices will not change much in the first half of the year. The prices of food items, furniture, appliances, transportation, gasoline, home heating oil, houses, clothing, shoes, and cars will move upwards at a more significant pace during the second half of the year. Regular increases in prices throughout the year are expected for electricity and medical costs. The largest hike on the list concerns natural gas. Others are speculating that such prices may go up by 25 or 30 per cent due to decontrol changes. KEDI does not see that as causing such a gain. Thirteen per cent is forecast here.

1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 11)

The month-by-month KEDI forecast for unemployment shows the peaks will be in February and March with the rates being around 9.6 per cent. That is an increase from the forecast in the last issue of 9.0 per cent. Gradual declines are seen in the rate over the remaining months of the year.

Looking ahead through 1986, the rate is seen as declining each year. The long-term employment outlook shows the average rate in 1982 will be 8.6 per cent. It will move down to an average of 7.2 per cent in 1983 and down again in 1984 to 7.0 per cent. The projection for 1985 and 1986 shows the rate as being 6.7 and 6.8 per cent, respectively.

The"creeping unemployment" that has been noted after each recession

TABLE 1.30 EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2*	3	4	
Population	mil.	223.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	104.7	105.8	106.1	106.4	107.1	106.4
Employed	mil.	97.1	98.0	98.3	98.7	98.1	98.3
- Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
- Non Agriculture	mil.	94.1	94.7	95.0	95.3	94.8	95.0
Unemployment Rate	%	7.19	7.34	7.37	7.24	8.48	7.61

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Population	mil.	225.9	228.0	229.2	230.4	231.4	229.6
Civilian Labor Force	mil.	106.4	108.0	108.7	109.5	110.7	109.2
Employed	mil.	98.3	97.6	98.8	100.5	102.2	99.8
- Agriculture	mil.	3.3	3.4	3.4	3.3	3.3	3.4
- Non Agriculture	mil.	95.0	94.2	95.4	97.2	98.9	96.4
Unemployment Rate	%	7.61	9.62	9.11	8.17	7.64	8.64

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Population	mil.	229.6	231.5	232.2	232.9	233.4	232.5
Civilian Labor Force	mil.	109.2	111.9	113.0	113.4	114.2	113.1
Employed	mil.	99.8	103.6	104.8	105.4	106.3	105.1
- Agriculture	mil.	3.4	3.3	3.4	3.3	3.4	3.4
- Non Agriculture	mil.	96.4	100.3	101.4	102.1	102.9	101.7
Unemployment Rate	%	8.64	7.44	7.28	7.04	6.95	7.21

* Historical Data

during the years since the early 1970's is not seen as being repeated by this Institute. That is, after each recession in the time period just mentioned, the rate of unemployment did not go back to the rate that existed before the recession, much less go lower than that rate. Unemployment edged forward each time. KEDI does not see a recession in the next few years. The forecast does not include continued creeping unemployment.

The sectors that will experience better-than-average reductions in joblessness but still will be floundering DURING THE SECOND HALF of 1982 are as follows: steel, noncoal mining, rubber and plastics, nonelectrical machinery, fabricated metal products, and chemical products. Unfortunately, there is no relief seen beyond slight marginal improvements in the auto, lumber and wood products, appliances, construction, clay, stone, and glass products industries.

1.40 HOUSING

(Table 1.40 on page 13)

There are indications that the disaster in the housing industry is coming to an end. The housing starts in 1981 totaled 1.099 million which was the lowest total since 1946. Still, the last two months of the year showed gain instead of more loss. Between November and December housing starts went up an adjusted 13.3 per cent. However, the December rate of 978,000 was 36 per cent below the year-earlier rate. The increase in December was not confined to one area. Housing starts went up in every region.

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TABLE 1.40 HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2*	3	4	
Single-Family Housing Starts	mil.	.860	.850	.775	.638	.553	.704
Multifamily Housing Starts	mil.	.473	.511	.391	.330	.350	.396
Mobile Home Shipments	mil.	.222	.248	.255	.245	.213	.240
Housing Permits Issued	mil.	1.117	1.177	1.105	.875	.751	.977
Construction Costs-Commerc.	1972=100	198.5	208.7	214.6	218.9	223.2	216.4
Construction Costs-Resident.	1972=100	198.6	209.5	215.1	217.8	223.5	216.5
Indicator	**Unit**	**1981**	**1982**				**1982**
			1	2	3	4	
Single-Family Housing Starts	mil.	.704	.551	.607	.667	.708	.633
Multifamily Housing Starts	mil.	.396	.393	.413	.498	.478	.447
Mobile Homes Shipments	mil.	.240	.221	.249	.278	.292	.260
Housing Permits Issued	mil.	.977	.770	.843	.962	1.085	.915
Construction Costs-Commerc.	1972=100	216.4	227.3	238.7	246.5	254.3	241.7
Construction Costs-Resident.	1972=100	216.5	226.2	236.4	242.6	244.2	237.4
Indicator	**Unit**	**1982**	**1983**				**1983**
			1	2	3	4	
Single-Family Housing Starts	mil.	..633	.732	.881	.904	.926	.861
Multifamily Housing Starts	mil.	.447	.522	.623	.705	.717	.642
Mobile Homes Shipments	mil.	.260	.308	.350	.371	.341	.642
Housing Permits Issued	mil.	.915	1.170	1.402	1.533	1.618	1.433
Construction Costs-Commerc.	1972=100	241.7	257.8	268.9	278.2	286.8	273.0
Construction Costs-Resident.	1972=100	237.4	257.3	270.6	283.1	284.1	273.8

* Historical Data

HOUSING

The forecast of 1.1 million starts for 1982 has been revised upward in this issue due to the December developments.

The KEDI forecast is close to that of the National Association of Home Builders: 1.3 million units for 1982. That is an improvement, but it is well below the average of around 1.8 million starts considered a more normal rate.

Aside from turnarounds at the end of 1981 in starts, two other areas present gains instead of more declines. Building permits issued rose by 12 per cent in December. Also, even though home sales had fallen by 20 per cent last year, the December sales total was up by 1.6 per cent over November.

The average price of a new home was $69,300 last year. KEDI has projected that home prices will go up by 7.1 per cent which means the new home will average $74,200 for this year. That is a more reasonable level of gain when compared to some of the jumps that took place in the latter part of the 1980's.

It is the projection here that housing starts in the first two months of this year will level off and then will increase steadily throughout the year. However the overall performance will not be strong, as was noted.

A survey published by the Professional Builder magazine recently found that around 90 per cent of the people surveyed still want a detached home--the old American dream basis. However, about 25 per cent buy an attached dwelling such as a townhouse or a condominium. More practical considerations lead to the buying of a a multi-family dwelling such as lower maintenance requirements or lower monthly payments.

1.50 GOVERNMENT BUDGETS
(Table 1.50 on page 16)

As compared with the previous forecast, the projection of the federal deficit has been increased again here. After the January 26 address by President Reagan, the assumption that there would be some major federal tax hikes in 1982 has been deleted here. Consequently, the forecast of the D.C. deficit has been increased by approximately $4 billion for calendar 1982.

The projection by KEDI for the federal deficits doe not incorporate the proposed switch of the Medicaid program, food stamps, and the aid to families with dependent children.The proposals are in the . development stage and are not expected to be functional until 1984.

The new federal deficit projections for 1982-1984 and the following years are still below the $100 billion range. KEDI agrees with Treasury Secretary Regan. That is, the $150 billion gaps foreseen by the Administration for 1982-1984 were very preliminary and too large.

The projection of the surpluses of state and local budgets has been decreased when compared with the previous forecast. This is mainly due to the reduction in the projection of receipts from income taxes.

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2*	3	4	
Federal Govt.:							
Income Taxes	bil. $	257.8	283.3	293.1	306.4	301.9	296.2
Corporate Profit Tax Accruals	bil. $	70.1	74.6	63.3	66.4	66.0	67.6
Surplus./Deficit	bil. $	-61.2	-46.6	-50.0	-55.7	-63.7	-54.0
State and Local Governments:							
Income Taxes	bil. $	80.7	88.6	89.7	93.3	96.1	91.9
Corporate Profit Tax Accruals	bil. $	12.2	13.1	11.6	11.7	11.8	12.2
Surplus./Deficit	bil. $	29.1	36.9	36.0	37.8	35.4	37.1

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	296.2	300.7	301.2	302.2	316.8	305.2
Corporate Profit Tax Accruals	bil. $	67.6	64.3	65.6	70.1	73.8	68.5
Surplus./Deficit	bil. $	-54.0	-75.4	-85.3	=96.4	-80.5	-84.4
State and Local Governments:							
Income Taxes	bil. $	91.9	97.1	97.0	99.7	100.1	98.5
Corporate Profit Tax Accruals	bil. $	12.1	12.2	12.6	13.2	14.0	13.0
Surplus./Deficit	bil. $	37.1	35.1	34.7	32.3	30.1	34.4

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	305.2	325.4	341.2	332.1	345.6	336.1
Corporate Profit Tax Accruals	bil. $	68.5	75.4	80.6	87.5	97.3	85.2
Surplus./Deficit	bil. $	-84.4	-75.3	-72.3	-94.3	-80.5	-80.4
State and Local Governments:							
Income Taxes	bil. $	98.5	101.6	102.3	104.6	104.9	103.4
Corporate Profit Tax Accruals	bil. $	13.0	14.9	16.1	18.2	18.9	17.0
Surplus./Deficit	bil. $	34.4	31.4	30.3	29.4	28.8	30.3

* Historical Data

INCOME

1.60 INCOME
(Table 1.60 on page 18)

The forecast by KEDI of personal income for this year and next has been reduced slightly when compared with the previous projection. The basic reason is the upwards revision of the unemployment rate foreseen in 1982 and 1983. Accordingly there have been downward revisions in the data for personal disposable income, compensation of employees, and related aggregates.

The projection of per capita personal disposable income for 1982 shows added decline. During 1981, preliminary estimates indicate this measure went down by 2.0 per cent compared to 1980. In 1982, a further decline of 1.1 per cent is expected. However, in 1983 KEDI anticipates real income will be level, and during 1984 there is a very slight gain of 0.4 per cent over the prior year in the projections here.

Looking at statistics in this area in another way, the news for 1981 and 1982 looks even worse. In 1981, the real spendable earnings of the average family went down by 3.3 per cent from the level of 1980. An additional drop of another 1.7 per cent is expected during the current year. In 1983, ther will be no decline and no gain of any consequence. It is projected here that there will be a slight increase of approximately 0.3 per cent in 1984 and 0.7 per cent in 1985.

TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2*	3	4	
Personal Income	bil. $	2160.2	2319.8	2368.5	2441.7	2484.4	2403.6
Personal Dispos. Income	bil. $	1821.7	1947.8	1985.6	2042.0	2086.4	2015.4
Compensation of Employees	bil. $	1596.5	1722.4	1752.0	1790.7	1821.7	1771.7
Corp. Profits After Tax	bil. $	163.1	169.2	152.7	156.3	149.0	156.8
Personal Saving	bil. $	101.3	88.9	106.6	106.9	124.1	106.6
Average Weekly Earnings	$	297.4	310.7	316.9	318.6	321.4	316.4

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Personal Income	bil. $	2403.6	2493.7	2524.6	2582.0	2647.5	2562.0
Personal Dispos. Income	bil. $	2015.4	2095.9	2126.4	2180.1	2230.7	2158.3
Compensation of Employees	bil. $	1771.7	1826.5	1847.3	1901.2	1959.8	1883.7
Corp. Profits After Tax	bil. $	156.8	147.1	152.3	167.5	179.4	161.6
Personal Saving	bil. $	106.6	115.6	110.2	110.8	117.4	116.0
Average Weekly Earnings	$	316.4	324.0	329.8	337.5	347.2	334.5

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Personal Income	bil. $	2562.0	2726.3	2802.1	2903.8	2988.1	2857.6
Personal Dispos. Income	bil. $	2158.3	2299.3	2358.6	2467.1	2537.6	2415.7
Compensation of Employees	bil. $	1883.7	2018.7	2075.3	2143.1	2219.7	2114.2
Corp. Profits After Tax	bil. $	161.6	189.5	198.2	210.3	217.2	203.8
Personal Saving	bil. $	116.0	116.3	117.2	132.4	127.6	123.4
Average Weekly Earnings	$	334.5	350.2	361.4	370.3	379.9	365.6

* Historical Data

1.70 MONEY AND CREDIT
(Table 1.70 on page 20)

The forecast here for the basic money supply, M1, remains unchanged. (The Federal Reserve has renamed the basic money supply aggregate known previously as M1B to M1.) For 1982, an increase of 5.5 per cent over 1981 is projected. That is at the tip of the target of 2.5-5.5 per cent set by the Federal Reserve for growth in M1 during this year. It is expected that the February figures for M1 will show a less rapid gain than the surge in January.

The forecast for M2, a broader measure for the money supply, reflects a slowing down. This category increased by 10.2 per cent in 1981 over 1980. KEDI forecasts the expansion of approximately 7 per cent this year.

As compared with the previous issue, the projection of commercial and industrial loans has been increased, mainly due to the Federal Reserve upwards revision of historical data series. Some additional upward revision of KEDI's last forecast took place for the third and fourth quarters of this year. It reflects the upwards revision of the forecast for the change in business inventories for that period.

The outlook for consumer credit remains essentially unchanged when compared to the January issue.

TABLE 1.70 MONEY AND CREDIT
(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1980*	1981				1981
			1*	2*	3	4	
Currency + Demand Deposits	bil. $	367.7	365.8	364.5	361.2	366.4	364.5
Time Deposits, Adjusted, M2	bil. $	1601.0	1718.4	1743.6	1774.7	1822.3	1764.8
Consumer Instal. Credit	bil. $	313.4	310.8	318.5	328.3	336.2	336.2
Commerc. & Industr. Loans at Banks	bil.$	324.9	332.3	340.6	357.7	361.4	361.4
Negotiable Cert. of Deposits	bil. $	129.2	132.4	136.7	144.3	156.9	156.9
Mortgages at S & L Assns.	bil. $	502.8	507.2	514.8	518.4	522.5	522.5

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Currency + Demand Deposits	bil. $	364.5	370.2	375.1	380.4	387.2	378.2
Time Deposits, Adjusted, M2	bil. $	1764.8	1857.4	1871.9	1896.3	1945.8	1885.4
Consumer Instal. Credit	bil. $	336.2	343.0	350.1	354.8	367.3	367.3
Commerc. & Industr. Loans at Banks	bil. $	361.4	370.5	378.7	390.2	403.1	403.1
Negotiable Cert. of Deposits	bil. $	156.9	162.0	167.9	175.1	180.4	180.4
Mortgages at S & L Assns.	bil. $	522.5	525.2	531.9	537.2	546.1	546.1

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Currency + Demand Deposits	bil. $	378.2	394.8	403.5	410.2	415.9	406.1
Time Deposits, Adjusted, M2	bil. $	1885.4	1942.8	1971.6	2007.7	2047.5	1992.4
Consumer Instal. Credit	bil. $	367.3	375.0	381.4	390.5	399.8	399.8
Commerc. & Industr. Loans at Banks	bil. $	403.1	409.8	415.6	420.8	427.2	427.2
Negotiable Cert. of Deposits	bil. $	180.4	182.6	185.7	193.4	196.5	196.5
Mortgages at S & L Assns.	bil. $	546.1	551.3	556.2	566.7	574.5	574.5

*Historical Data

INTEREST RATES,YIELDS,AND SECURITIES PRICES

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES
(Table 1.80 on page 22)

The forecast is maintained here for gradual declines in the interest rates throughout 1982. The recent upward pressure on interest rates is not seen as strong enough to drive current rates higher by very much. KEDI does not exclude the possibility of a slight, temporary, increase in the prime rate and other leading rates. Still, the position is maintained that the rates will be moving in a general downward direction in small increments throughout the year. The view of a vice president of the Mellon Bank that there is upward pressure, but it is not enough to cause a rise is shared here. Also agreed with is the view expressed by some other bankers that continued economic weakness would cause interest rates to move in general downward directions.

This Institute is not as optimistic as those that see credit policy easing in view of the weak economy. A prime rate down to 12 per cent and Treasury bills below 10 per cent is seen as unrealistic here. They will not go that low.

This Institute's projection of the stock market shows continued strenght despite the unenergetic economy. As measured by the Standard and Poor's 500 Average, respectable gains will take place in the last quarter of this year and in 1983.

The forecast of average bonds yields shows improvements in 1982 and 1983. It shows significant drops in yields and increases in prices in the fourth quarter of 1982 and strong performance in 1983.

TABLE 1.80 INTEREST RATES, YIELDS AND SECURITIES PRICES
(Quarterly averages of monthly figures)

Indicator	Unit	1980*	1981				1981
			1*	2*	3	4	
3 mo Treas. Bills Rate (new issues)	%	11.51	14.37	14.83	15.05	11.79	14.01
Prime Rate	%	15.10	19.21	18.93	20.32	17.15	18.90
Mortgage Rate, New Homes	%	14.43	15.11	16.54	17.56	17.39	16.65
Aaa Bonds Rate	%	11.94	13.92	13.98	14.92	14.36	14.30
Long Term Govt. Bonds Yield	%	11.39	12.74	13.49	14.50	13.95	13.67
Standard & Poor's 500 Average	1941-43 =10	118.71	131.52	132.81	125.68	121.44	127.86

Indicator	Unit	1981	1982				1982
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	14.01	11.56	11.49	11.58	11.24	11.47
Prime Rate	%	18.90	15.87	15.03	14.51	14.23	14.91
Mortgage Rate, New Homes	%	16.65	16.42	15.91	14.78	13.86	15.24
Aaa Bonds Rate	%	14.30	14.56	13.87	13.16	12.57	13.54
Long Term Govt. Bonds Yield	%	13.67	13.88	13.69	13.50	13.24	13.58
Standard & Poor's 500 Average	1941-43 =10	127.86	123.51	126.17	129.17	131.65	127.63

Indicator	Unit	1982	1983				1983
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	11.47	11.52	11.80	11.89	12.01	11.81
Prime Rate	%	14.91	14.36	14.42	14.51	14.63	14.48
Mortgage Rate, New Homes	%	15.24	12.71	12.30	12.08	12.36	12.35
Aaa Bonds Rate	%	13.54	11.78	11.08	11.14	11.47	11.37
Long Term Govt. Bonds Yield	%	13.58	13.28	12.87	12.94	13.43	13.13
Standard & Poor's 500 Average	1941-43 =10	127.63	134.26	135.71	137.26	135.47	135.68

* Historical Data

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the Index of Industrial Production for the year 1981 has been selected for comparison. The actual figure is calculated from the January 15, 1982 release of FEDERAL RESERVE Industrial Production, G.12.3 (Board of Governors of the Federal Reserve System, Washington, D.C., monthly). Forecast data are from the Business Forecasts 1981, Federal Reserve Bank of Richmond, Richmond, Virginia, 1981. The following table shows the predictions of forecasters and the deviations of forecast data.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

(Index of Industrial Production.1967 = 100.)

Actual Index for 1981: 150.9

Forecaster	Forecast	Page of Business Forecasts 1981	% of Accuracy
American Statistical Assn. and National Bureau of Economic Research	148.3	21	-1.7
Ameritrust	146.1	22	-3.2
The First National Bank of Chicago	146.7	24	-2.8
Manufacturers Hanover Trust	145.2	25	-3.8
Economic Research Dept. Chemical Bank	151.9	26	+0.7
The UCLA National Bus.Forecast	148.1	27	-1.9
WGN Continental Broadcast.Co.	147.1	29	-2.5
Edward C.Hyman,Jr., and Cyrus J. Lawrence, Inc.	148.9	29	-1.4
Bankers Trust Company	149.2	30	-1.1
Standard & Poor's Corporation	146.7	31	-2.8
Data Resources,Inc.	146.7	32	-2.8
KEDI	151.6	33	+0.5
Fidelity Bank	148.7	34	-1.5
Morgan Guaranty Trust Company	148.1	35	-1.9
United California Bank	152.8	07	+1.3
The Conference Board	148.2	08	-1.8
National Securities and Research Corporation	154.5	11	+2.4
U.S.Trust Company of NewYork	149.5	13	-1.0
Harris Trust and Savings Bank,R.J.Genetski	148.3	17	-1.7
P.H.Jedel,Cities Service	149.6	17	-1.0
J.A.Livingston	148.0	19	-2.0

3/8/82 W 2635-1 A

KEDI ECONOMIC SURVEY

MARCH 1982 ISSUE

KENT ECONOMIC AND DEVELOPMENT INSTITUTE

P.O. Box 641/Kent, Ohio 44240/U.S.A.

BEST AVAILABLE COPY

Vol. 7, No. 9, March 1, 1982

KEDI ECONOMIC SURVEY

MARCH 1982 ISSUE

President: Vladimir J. Simunek

This updated monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquiries should be directed to: KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, Kent Student Center, KSU Campus, Kent, OH 44242, U.S.A. Kent State University Foundation, Inc., and Kent Economic and Development Institute are not liable for any claim based on deviation of forecast data from actual data. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

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Publication No. 038200694
KEDI March 1, 1982

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KENT ECONOMIC AND
DEVELOPMENT INSTITUTE March 1, 1982

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KENT ECONOMIC AND
DEVELOPMENT INSTITUTE
March 1, 1982

1.00 OVERVIEW AND ASSUMPTIONS

1.01 OVERVIEW

There are no essential changes in the KEDI prediction for the U.S. economy in the current year or in any year through 1986. It is maintained here that there will be further drops in economic activity during the first quarter, a leveling in the second, and very modest growth in the latter half of the year. The fourth quarter will be the "best" of the lot--relatively speaking--leading into a stronger 1983. A broad summary of that year and the following years is presented here.

1983: More robust growth, low inflation rate, declining unemployment.

1984: Growth continues, inflation resumes upwards trend, unemployment lower.

1985: Slowdown in growth, restrictive measures against inflation, slight increases in joblessness.

1986: Expansion rate lessens again, inflation abates some, unemployment edges upward.

As compared to the Administration, the view of the next few years here is less optimistic, except for the rate of unemployment. Data for the two are as follows:

		1982	1983	1984	1985	1986
GNP (bill. constant 1972$)	Admin.	1,513	1,591	1,670	1,750	1,827
	KEDI	1,510	1,588	1,658	1,729	1,807
Personal Income (bill.$)	Admin.	2,641	2,887	3,121	3,411	3,723
	KEDI	2,560	2,849	3,027	3,306	3,627
Consumer Price Index (1967=100.)*	Admin.	7.3	6.0	4.6	4.8	4.6
	KEDI	6.8	7.9	7.8	8.0	8.2
Unempl. Rate (% of Civ.Labor Force)	Admin.	8.9	7.9	7.1	6.4	5.8
	KEDI	8.4	7.3	7.0	6.8	6.9

*Year to year changes

OVERVIEW

As was shown in the prior table, KEDI anticipated slower rates of growth of the economy from 1982 through 1986 than does the Reagan Administration. Also, this Institute predicts that the increments in wages and salaries will be smaller than the powers in Washington foresee. On the other hand, their forecasts of the rate of inflation are seen here as being too conservative.

KEDI does not agree with the Council of Economic Advisers. Housing, autos, and consumer goods will not lead us out of the recession this year. There simply will not be enough recovery in these basic sectors of the economy to fuel recovery. Growth in defense and other aspects of the economy will initially provide the impetus to gradual growth.

The view of the White House chief of staff, James Baker III, that the beginning signs of recovery will appear in the second quarter and some upturn will occur in the last half of the year is shared here. Mr. Yardeni, the chief economist for E. F. Hutton & Co. cited interest rate levels as the reason a firm recovery in autos and housing is not in our near future. KEDI (When KEDI speaks, you do listen) agrees with the Hutton view. By this Institute's calculations, there will be no substantial decrease in interest rates this year.

1.02 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, the changes concern the updates of the Assumption No.1.

1. In 1985, all U.S. demand for oil should be met. In 1982, it is expected the weighted price of oil will be $33; in 1983 it will go up

ASSUMPTIONS

to $35 per barrel; in 1984, to $37 per barrel; and in 1985, to $40 per barrel.

2. It is expected, that the Mid East crisis will continue throughout this year, and more normal economic conditions, including a significant resumption in the area of oil exports, will take place not earlier than in 1983.

3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1982-86 period. In 1982, some relaxation, and in 1983-84, tightening is assumed.

4. Increases in state and local taxation in 1982-1986 are anticipated.

5. Our foreign trade with China will gain a substantial momentum in 1982 and following years.

6. In 1982 and 1983 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1984. The years 1984 and 1985 should bring U.S. record crops.

7. It is projected here that the average rates of growth in 1982-1985 in the major industrial countries will be as follows for real GNP:

	1982-1985
West Germany	3.1%
Japan	3.3%
Italy	2.2%
Great Britain	2.1%
France	2.4%

8. No drastic changes in existing international relationships are assumed in this forecast.

The March 1982 KEDI forecast is highlighted in Table 1.0 on page No.4.

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE

MONTH: March 1982

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1981	1982	1985	1986
Gross National Product	bil. const. 72 $	1510.0	1510.7	1729.3	1807.4
Index of Industrial Production	1967 =100	150.9	146.2	175.2	180.3
Capacity Utilization	%	77.8	71.9	80.3	82.2
Unemployment Rate	%	7.6	8.4	6.8	6.9
Private Housing Starts	mil. units	1.092	1.061	1.735	1.842
Car Sales	mil. units	8.7	7.5	9.3	9.9
Implicit GNP Price Deflator	1972 =100	193.7	208.1	258.5	279.7
Consumer Price Index	1967 =100	272.2	290.5	360.2	374.2
Producer Price Index	1967 =100	269.4	287.3	352.1	368.5
Federal Deficit	bil. $	-56.5	-91.4	-42.3	-32.5
Personal Income	bil. $	2403.0	2560.1	3306.2	3627.3
Prime Rate	%	18.90	15.14	13.56	13.10
Mortgage Rate	%	16.65	15.63	11.24	11.45
Currency plus Demand Deposits	bil. $	364.5	379.1	428.9	439.6
Commercial and Industrial Loans	bil. $	361.4	362.7	470.5	482.7

1.10 REAL GROWTH

(Table 1.10 on page 9)

The latest data for the U.S. economy confirm the forecast made here in the previous issues: bottom of the recrssion pit reached in the first quarter and gradual improvement in the rest of the year. Recently released data presented here deal first with the news confirming the recession, then with developments pointing to this end, and thirdly, with news that shows there are a few good signs which direct the scene toward some measure of growth in the latter. part of 1982 and beyond.

The Recession.

1. Factory output was down by 3 per cent in January. That was the sixth month in a row of downturns here. The December decline was 2.1 per cent. The Federal Reserve's index of the output of the nation's factories, utilities, and mines was at 139.1 per cent of its 1967 average in January. That was a drop of approximately 8 per cent from the year earlier level. KEDI projects added decline in February and ceasing of downward moves in March.

2. Capacity utilization dropped to 70.4 per cent in January. That was the lowest rate since May of 1975. Motor vehicle and parts makers and stone, clay, and glass industries were hit the worst. The auto and parts industry operating rate was an adjusted 43.6 per cent. For stone, clay, and glass, the factory use rate was down to an adjusted 60.7 per cent. The operating rate for the petroleum industry was also down--to 71.7 per cent. That was the lowest it had been since a strike in 1952.

REAL GROWTH

The KEDI projection for capacity utilization shows the February rate at 70.0 per cent, March at 70.3, and an average of 71.2 for the second quarter. The third quarter average will be 72.3, and the fourth quarter will average 73 per cent according to calculations here.

3. Automakers have again reduced their plans for the first quarter of this year. They now plan to build 21 per cent fewer cars in the first three months of this year than had been planned for in the same quarter of last year. The total production planned of 1,229,000 will be the weakest first quarter in over 20 years. In late January, U.S. car sales were down by 25 per cent to a 21-year low. A part of this was attributed to confusion over the possibility of GM price cuts. The forecast at this Institute shows very small improvements in this area during the rest of the year.

Reaching the Plateau.

1. Factory orders edged forward by 0.2 per cent in December. The earlier gain announced by the Commerce Department of 0.2 per cent for November was revised to 0.6 per cent. Factory orders for all of 1981 were up an unadjusted 7.4 per cent. The slight gain in factory orders is a good sign. It indicates that the recession is about at the bottom and it will not decline much more.

2. Durable goods orders declined by just 1.5 per cent in January. That is a very small decline. Defense orders rose by 24 per cent from the prior month and this prevented the durable category from showing any significant drop. Reagan's commitment to increasing defense is seen as

REAL GROWTH

an important part of the recovery. In part, the current recession has not affected durable goods orders as much as has been true in the past. This is due to recent and future defense spending. From their peak last July, durable orders declined by 12.4 per cent through January. That is not as severe as the 17.4 per cent drop in the 1980 recession or the 1974-5 recession decline in such orders of over 25 per cent.

3. The downward move in car sales slowed to just 1.4 per cent in mid-February. That was the smallest decline since last September. The daily selling rate averaged 18,588 from Feb. 11-20.

Creeping Ahead.

1. Leading economic indicators gained by 0.6 per cent in December. That was the first gain since last July. Although not highly accurate, the index generally rises three or four months before an economic upturn.

2. U.S. business inventories moved downward slightly in December. The 0.4 per cent adjusted decline was the first in over six years.That's seen here as a positive sign. Using inventories now is likely to result in gains in production a few months from now.

3. A survey of buying agents showed that 19 per cent reported a gain in new orders in January whereas the December figure was 15. Also a larger portion of those surveyed by the National Association of Purchasing Management reported some decline in inventories of finished goods.

REAL GROWTH

4. Retail sales reflect a flattening of the recession with prospects for improvement in the second half of the year. A few of the chains managed to stay even or post slight real gains in the face of 5 or 6 per cent inflation in the retail industry as an average over the years. Sears, K-Mart, and Dayton Hudson are all holding their own, for instance.

The overall picture is not so bleak. As was just covered, small declines in such areas as durable goods, small gains in leading indicators, and the bit of a drop in inventories are clues to a turnabout that will be gradual. Most of the statistical data are oriented to industry--not to other segments of the economy. The data that have been seen ignore the SERVICE sector. In terms of major sources of personal income, manufacturing paychecks only represent about 16 per cent whereas service and government employment account for 40 per cent, and transfer and interest payments, 27 per cent. The service industry now represents more than one half of nonfarm employment.and is less sensitive to interest rates. As Norman Robertson of the Mellon National Bank pointed out in the February 10 issue of the New York Times (Section 3, page 1), the publicized news of manufacturing declines gives the appearance of "an economic free-fall."

1.20 PRICES
(Table 1.20 on page 12)

For 1982, the KEDI forecast shows modest gains in price increases in the first half of the year. Inflation will accelerate during the

TABLE 1.10 REAL GROWTH
(Unless otherwise noted, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1 *	2*	3	4	
Gross National Product, 1972 $	bil. $	1480.7	1516.4	1510.4	1515.8	1497.6	1510.0
Index of Industrial Production	1967= 100	147.1	151.8	152.5	153.0	146.3	150.9
Unemployment Rate	%	7.2	7.4	7.4	7.3	8.4	7.6
Capacity Utilization Rate	%	78.7	79.9	79.8	79.3	72.2	77.8
Private Housing Starts	mil. units	1.292	1.361	1.166	.968	.871	1.092
Car Sales	mil. units	9.0	10.2	7.9	9.1	7.4	8.7

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1510.0	1491.2	1501.1	1515.3	1535.3	1510.7
Index of Industrial Production	1967= 100	150.9	139.2	142.5	149.2	153.7	146.2
Unemployment Rate	%	7.6	8.8	8.7	8.2	7.7	8.4
Capacity Utilization Rate	%	77.8	70.3	71.0	72.6	73.8	71.9
Private Housing Starts	mil. units	1.092	.895	1.008	1.141	1.199	1.061
Car Sales	mil. units	8.7	6.4	7.1	8.0	8.3	7.5

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1510.7	1556.8	1579.4	1598.7	1616.1	1587.7
Index of Industrial Production	1967= 100	146.2	157.2	161.8	168.5	173.3	165.2
Unemployment Rate	%	8.4	7.6	7.4	7.1	7.1	7.3
Capacity Utilization Rate	%	71.9	76.5	78.6	80.4	83.8	79.8
Private Housing Starts	mil. units	1.061	1.239	1.497	1.609	1.634	1.495
Car Sales	mil. units	8.0	8.2	8.5	8.9	9.0	8.7

* Historical Data

PRICES

In this issue of the KEDI Economic Survey, the downward move in the inflation rate forecast is basically due to the smaller change than anticipated that was chalked up for both producer and consumer prices. Producer prices went up by 0.4 per cent in January. Consumer prices edged up just 0.3 per cent. Indications are that the February-March increase will be in a similar range. Steeper gains in both of these areas will take place in the fourth quarter of this year. Lowered inflation rates have been desired by all.

Food prices will, in general, go up only slightly. The main gain will be in beef, and pork, but even here the change will not likely be much over 4 per cent.

The projection of the prices of houses now reflects a gain of 7 per cent for new homes in 1982 as compared with 1981. The CPI has large weights for the housing components which accounts for roughly 40 per cent of the total index. Within that portion, the major aspects are for figures concerning house prices, mortgage rates, and the cost of heating and other fuels. As mortgage rates will decline somewhat this year and the prices of heating oil and other fuels will stabilize, the housing portion of the CPI will increase by approximately 5 per cent.

The leading items that will go up in the U.S. consumer basket during this year will be medical care, hospitalization costs, auto and appliance repairs, natural gas, electricity, and entertainment and services in general.

EMPLOYMENT AND LABOR

Last year inflation averaged 10.3 per cent. (Sorry to bring that up if your income increase was less than that or nonexistent.) The rate of inflation slowed in January to a very moderate 0.3 per cent. A drop in clothes prices and gasoline prices overall--Did you see it at the gas pump. I did not--helped put the brakes on CPI gains.

1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 14)

The employment and the number of people in the civilian labor force in Table 1.30 are consistent with the latest revision by the Labor Department based on 1980 data from the Population Census.

KEDI's projection remains relatively optimistic when compared with most other forecasters. This Institute shares the view that the decline from 8.8 per cent in December to a January rate of unemployment of 8.5 per cent is short-lived. It will shoot to around 9 per cent in February and remain around that level in March and April before it will start to decline. The January rate understates the weakness in the job market. The severe weather likely kept many from job hunting or registering as unemployed. The number of jobless people was up sharply last month, but not as much as is usually the case in January. Hence, after seasonal adjustment, that increase became a decline. Discuraged workers, ones that had given up trying to find a job because they feel it is hopeless, are not counted in the unemployment rates. Such people were estimated at 1.2 million in the last quarter of 1981.

TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2*	3	4	
Consumer Price Index, NSA	1967=100	247.9	262.9	269.7	275.3	280.7	272.2
Producer Price Index, NSA **	1967=100	246.8	263.4	269.4	271.2	274.6	269.7
Implicit GNP Price Deflator	1972=100	174.4	188.1	191.1	195.7	200.0	193.7
Gross National Product	bil. $	2626.1	2853.0	2885.8	2965.0	2995.3	2924.8
Personal Consump. Expenditures	bil. $	1672.8	1810.1	1829.1	1883.9	1908.4	1857.9
Gross Private Dom. Investment	bil. $	395.3	437.1	458.6	463.0	443.9	456.2
Indicator	**Unit**	**1981**	**1982**				**1982**
			1	2	3	4	
Consumer Price Index, NSA	1967=100	272.2	283.0	286.7	292.8	299.5	290.5
Producer Price Index, NSA**	1967=100	269.7	278.9	282.9	287.4	294.2	285.9
Implicit GNP Price Deflator	1972=100	193.7	203.1	207.2	209.6	212.3	208.1
Gross National Product	bil. $	2924.8	3028.6	3110.9	3176.5	3260.1	3144.0
Personal Consump. Expenditures	bil. $	1857.9	1929.1	1978.3	2002.6	2044.7	1988.7
Gross Private Dom. Investment	bil.$	456.2	464.8	479.3	498.6	536.3	492.3
Indicator	**Unit**	**1982**	**1983**				**1983**
			1	2	3	4	
Consumer Price Index, NSA**	1967=100	290.5	305.4	311.0	316.5	322.7	313.4
Producer Price Index, NSA	1967=100	285.9	299.7	307.4	312.3	317.5	309.7
Implicit GNP Price Deflator	1972=100	208.1	217.7	221.9	226.0	229.7	223.8
Gross National Product	bil. $	3144.0	3389.8	3503.9	3612.4	3712.3	3554.6
Personal Consump. Expenditures	bil. $	1988.7	2116.8	2184.6	2244.6	2305.7	2212.9
Gross Private Dom. Investment	bil. $	492.3	551.8	573.2	589.4	603.5	579.5

*Historical Data

**Finished Goods

HOUSING

In the second part of this year, KEDI expects declines in joblessness in nonelectrical machinery, nonresidential construction, chemicals, lumber, and steel industries, and iron ore mining. Auto, rubber, electrical machinery, and housing will remain at low levels. Unemployment will not change much in these areas.

1.40 HOUSING
(Table 1.40 on page 16)

KEDI's forecast has been slightly increased for houding starts of single-family houses. Looking at the current year and the three subsequent years, the best that can be said is that in 1984 the housing industry will climb up to what is considered a normal rate of 1.7-1.8 million units per year after being in the pits for the first part of the decade of the 80's.

This Institute agrees with Mr. Sinai of Data Resources Inc. that there will not be a big rebound in the next few years. The industry will be smaller. The standard house will also be smaller in order to be affordable by more people.

The long-term forecast here shows that multi-family units will represent an increasing share of the total market. That share was 36 per cent in 1981. KEDI expects it will be 39 per cent in 1983 and about 43 per cent in 1986.

The projection here for housing starts this year is somewhat more optimistic than the majority of forecasters. Two basic reasons are involved. First, new home sales are rising and have been for each

TABLE 1.30 EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1 *	2*	3	4	
Population	mil.	223.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	104.7	108.1	108.8	108.7	109.2	108.7
Employed	mil.	97.1	100.1	100.8	100.7	100.1	100.4
- Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
- Non Agriculture	mil.	94.7	96.8	97.5	97.3	96.8	97.1
Unemployment Rate	%	7.19	7.38	7.40	7.37	8.35	7.62

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Population	mil.	225.9	228.0	229.2	230.4	231.4	229.6
Civilian Labor Force	mil.	108.7	109.5	110.3	110.9	111.8	110.6
Employed	mil.	100.4	99.8	100.7	101.8	103.2	101.4
- Agriculture	mil.	3.3	3.4	3.4	3.3	3.3	3.4
- Non Agriculture	mil.	97.1	96.4	97.3	98.5	99.9	98.0
Unemployment Rate	%	7.62	8.84	8.69	8.24	7.73	8.38

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Population	mil.	229.6	231.5	232.2	232.9	233.4	232.5
Civilian Labor Force	mil.	110.6	112.6	113.8	114.9	115.8	114.3
Employed	mil.	101.4	104.1	105.4	106.7	107.6	105.9
- Agriculture	mil.	3.4	3.3	3.4	3.3	3.4	3.4
- Non Agriculture	mil.	98.0	100.8	102.0	103.4	104.2	102.5
Unemployment Rate	%	8.38	7.56	7.41	7.13	7.08	7.30

* Historical Data

month since last October. Hence, the inventory of unsold homes is declining. At the end of last September, there was almost [illegible] full year's supply of unsold homes on hand. By the end of December, that had been reduced to an estimate of 7.2 month's supply based on the year-end sales pace. Secondly, the projection of mortgage rates shows continuous declines throughout this year. It is forecast here that the conventional mortgage rate will drop from the present level of 17 per cent to the area of 14 per cent by the end of 1982.

KEDI agrees with Mr. Sumichrast that rates will move down because inflation has done so, and the current recession has certainly lessened politician's interest in higher interest rates.

1.50 GOVERNMENT BUDGETS
(Table 1.50 on page 19)

The Administration has proposed a 1983 budget with a deficit of $91.5 billion. It forecasts the 1984 deficit at $82.9 billion. The projection by this Institute is a bit more pessimistic beyond this year. Still, it is not as gloomy as many of the other forecasters. (The Wall Street Journal, February 10, 1982, page 20.)

FEDERAL BUDGET DEFICITS. Billions of $.

	Fiscal year ending		
	9/30/82	9/30/83	9/30/84
Reagan Budget	98.6	91.5	82.9
Lawrence Chimerine Chase Econometrics	108	110-130	80-100
James Fralick Morgan Guaranty	105-115	120-140	140-160
Alan Greenspan Townsend-Greenspan	98	120	118-135
Irvin Kellner Manufacturers Hanover	105	95	90

TABLE 1.40 HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2*	3	4	
Single-Family Housing Starts	mil.	.860	.850	.775	.638	.540	.701
Multifamily Housing Starts	mil.	.473	.511	.391	.330	.331	.391
Mobile Home Shipments	mil.	.222	.248	.255	.245	.209	.239
Housing Permits Issued	mil.	1.117	1.177	1.105	.875	.745	.974
Construction Costs-Commerc.	1972= 100	198.5	108.7	214.6	218.9	223.1	216.4
Construction Costs-Resident.	1972= 100	198.6	209.5	215.1	217.8	223.6	216.5
Indicator	**Unit**	**1981**	**1982**				**1982**
			1	2	3	4	
Single-Family Housing Starts	mil.	.701	.549	.602	.669	.712	.633
Multifamily Housing Starts	mil.	.391	.346	.406	.472	.487	.428
Mobile Homes Shipments	mil.	.239	.220	.244	.272	.288	.254
Housing Permits Issued	mil.	.974	.770	.840	.958	1.085	.912
Construction Costs-Commerc.	1972= 100	216.4	227.3	238.7	246.4	254.0	241.7
Construction Costs-Resident.	1972= 100	216.5	226.2	236.4	242.4	254.0	239.7
Indicator	**Unit**	**1982**	**1983**				**1983**
			1	2	3	4	
Single-Family Housing Starts	mil.	.633	.743	.895	.914	.936	.872
Multifamily Housing Starts	mil.	.428	.496	.602	.695	.698	.623
Mobile Homes Shipments	mil.	.254	.304	.340	.361	.337	.635
Housing Permits Issued	mil.	.912	1.166	1.392	1.523	1.610	1.425
Construction Costs-Commerc.	1972= 100	241.6	257.8	266.0	277.1	282.8	271.0
Construction Costs-Resident.	1972= 100	237.3	257.3	268.3	274.1	280.1	269.9

* Historical Data

GOVERNMENT BUDGETS

	Fiscal year ending 9/30/82	9/30/83	9/30/84
Allen Sinai Data Resources	107.2	108.7	103.6
KEDI	97.8	93.4	84.1

This Institute does not agree with any of the Congressional Budget Office (CBO) forecasts of the deficit. In early February the CBO announced that the deficit this year would swell to $109 billion, and that in 1983 it could reach $157 billion.(Good Grief). Late in February, they announced red ink for 1983 of $121 billion. One wonders about the source of these figures in addition to their bloated condition. KEDI is no where near that pessimistic.

The budget outlook is, of course, tentative. Ultimately, the size may rest in the hands of Congress. It may take the initiative and raise taxes, or it might adopt more stringent spending reductions.

The calculations by KEDI for this fiscal year, i.e., the current budget reflect payment of unemployment insurance, interest payments, and defense spending as lower than other forecasters and tax receipts as slightly higher.

Good news: The January 1982 actual budget figures have shown a SURPLUS of federal receipts over expenditures in the amount of $9 billion. That can help take some pressure off interest rates, at least temporarily. The January surplus also lends support to the KEDI view that the deficit will not exceed $100 billion in fiscal 1982.

INCOME

Concerning the projections for fiscal '83 and '84, KEDI has incorporated lower increases in Social Security benefits than the figures used by the Administration. The reason is that cost of living adjustments to benefits will be substantially lower due to the small change in the CPI expected in the first quarters of 1982 and 1983. Also, KEDI projects federal debt service and defense spending as being a bit lower for '83 and '84 than the Administration.

The projection here for state and local budgets anticipates the switch of the Medicare, welfare, and food stamps programs starting in fiscal 1984. Calculations show that the switch of programs will result in roughly $1 billion in added expenses for state and local budgets.

1.60 INCOME

(Table 1.60 on page 21)

There is no essential change in the projection by KEDI for personal income and related aggregates. The forecast here for corporate profits after taxation points to further declines in the first half of this year, slight improvements in the latter half, and a gain of 17 per cent in 1983 over 1982. The projection for 1984 shows profits rising by 12 per cent. In 1985, such profits are expected to go up by 10 per cent over the previous year.

Calculations of the effects of present and anticipated wage concessions coming out of negotiations in construction, the auto industry, rubber, machinery, electronics, trucking, and other industries this year and

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1 *	2*	3	4	
Federal Govt.:							
Income Taxes	bil. $	257.8	283.3	293.1	306.4	301.9	296.2
Corporate Profit Tax Accruals	bil. $	70.1	74.6	63.3	66.4	64.0	67.1
Surplus./Deficit	bil. $	-61.2	-46.6	-50.0	-55.7	-69.6	-56.5
State and Local Governments:							
Income Taxes	bil. $	80.7	88.6	89.7	93.3	91.6	90.8
Corporate Profit Tax Accruals	bil. $	12.2	13.1	11.6	11.7	11.6	12.0
Surplus./Deficit	bil. $	29.1	36.9	36.0	37.8	37.1	37.0

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	296.2	300.2	303.6	282.1	297.2	295.8
Corporate Profit Tax Accruals	bil. $	67.1	62.0	63.3	66.2	70.4	65.5
Surplus./Deficit	bil. $	-56.5	-77.4	-87.2	-108.5	-92.4	-91.4
State and Local Governments:							
Income Taxes	bil. $	90.8	90.1	89.4	91.5	92.3	90.9
Corporate Profit Tax Accruals	bil. $	12.0	11.5	11.8	12.9	13.7	12.5
Surplus./Deficit	bil. $	37.0	35.2	34.8	34.2	32.1	

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	295.8	305.2	318.6	297.6	316.4	309.5
Corporate Profit Tax Accruals	bil. $	65.5	75.2	80.2	87.1	97.1	84.9
Surplus./Deficit	bil. $	-91.4	-95.5	-92.1	-108.7	-81.2	-94.4
State and Local Governments:							
Income Taxes	bil. $	90.9	94.1	95.4	97.8	98.1	96.4
Corporate Profit Tax Accruals	bil. $	12.5	14.6	15.5	17.4	18.3	16.5
Surplus./Deficit	bil. $	34.1	31.7	32.2	32.3	32.6	32.2

* Historical Data

next show that they will contribute, but not significantly, to the overall growth in profits. The projection shows that unit labor costs will still grow faster than the prices for which products are sold in a majority of industries:

KEDI projection, increases over each previous year, %

	1982	1983	1984	1985	1986
Labor Costs	10.4	9.3	9.8	10.4	10.2
Producer Price Index	6.0	7.0	7.4	7.8	8.3

1.70 MONEY AND CREDIT

(Table 1.70 on page 23)

KEDI maintains its forecast for the growth in the basic money supply, M1, as being 5.5 per cent this year. The forecast here of M1 is at the upper limits of the Fed's target range of 2.5-5.5 per cent for this category. The projection of the broader measure of the money supply, M2, has been slightly increased from last month to 8.5 per cent for 1982 instead of 7 per cent. The Fed's target for M2 is 6-9 per cent as of the December, 1981, meeting of the Open Market Committee. KEDI is close to the top of the latter range.

The forecast of commercial and industrial loans is maintained here. KEDI expects continuous growth this half of the year with acceleration in the third and fourth quarters of 1982. It is anticipated here that commercial and industrial loans this year will exceed 1981 by 8.0 per cent, 1983 growth will be approximately 8.1, and 1984, 6.7 per cent.

The forecast of consumer installment credit for 1982 shows main gains

TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1 *	2 *	3	4	
Personal Income	bil. $	2160.2	2319.8	2368.5	2441.7	2485.9	2403.0
Personal Dispos. Income	bil. $	1821.7	1947.8	1985.6	2042.0	2087.9	2015.8
Compensation of Employees	bil. $	1596.5	1722.4	1752.0	1790.7	1820.9	1771.5
Corp. Profits After Tax	bil. $	163.1	169.2	152.7	156.3	149.0	156.8
Personal Saving	bil. $	101.3	88.9	106.6	106.9	126.7	107.3
Average Weekly Earnings	$	297.4	310.7	316.9	318.6	321.8	316.5

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Personal Income	bil. $	2404.0	2493.2	2520.0	2581.6	2645.5	2560.1
Personal Dispos. Income	bil. $	2015.8	2102.9	2127.0	2208.0	2256.0	2173.5
Compensation of Employees	bil. $	1771.5	1825.3	1845.2	1898.6	1954.2	1880.8
Corp. Profits After Tax	bil. $	156.8	147.0	152.0	166.8	176.3	160.5
Personal Saving	bil. $	107.3	118.6	110.4	121.4	117.2	116.9
Average Weekly Earnings	$	316.5	324.1	330.2	337.9	347.5	334.8

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Personal Income	bil. $	2560.1	2724.3	2796.5	2892.4	2983.6	2849.2
Personal Dispos. Income	bil. $	2173.5	2325.0	2382.5	2497.0	2569.1	2443.4
Compensation of Employees	bil. $	1880.8	2012.9	2070.4	2138.5	2213.2	2108.8
Corp. Profits After Tax	bil. $	160.5	178.4	182.8	193.6	201.1	189.0
Personal Saving	bil. $	116.9	116.3	117.8	132.9	127.2	123.6
Average Weekly Earnings	$	334.8	350.2	360.3	367.2	373.5	362.8

* Historical Data

in the second half of this year. Next year, consumer confidence will gain. Corresponding to this loans will rise. Significant increases are projected for auto loans, appliances, furniture, and other consumer durables.

The forecast here of the net credit demand for the U.S.A. in 1982 is $490 billion--a rise of 3 per cent over the $475 billion in 1981. The borrowing by the federal government is expected to be $140 billion which is a gain of $20 billion over the last year. Mortgage demand will grow by approximately $10 billion also. State and local governments credit demand will expand by $14 billion. Corporate bonds offerings will go up by $30 billion, a jump of about 35 per cent over what was typical in recent years.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES
(Table 1.80 on page 24)

The recent drop in interest rates is in line with the forecast maintained here for months that interest rates, in general, will be lower this year than in 1981. They will be declining in small increments throughout the year.

KEDI maintains the position that there will be no precipitous declines in interest rates. The view here is shared by others. A Citibank spokesperson and an economist at Northern Trust Co., Chicago cited financial markets as gaining in their confidence that the Fed's will keep money growth in control as one reason rates will move down. A Chemical Bank V.P. referred to the weakness in the economy as contributing to further

TABLE 1.70 MONEY AND CREDIT

(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1980*	1981				1981
			1 *	2 *	3	4	
Currency + Demand Deposits	bil. $	367.7	365.8	364.5	361.2	366.4	364.5
Time Deposits, Adjusted, M2	bil. $	1601.0	1718.4	1743.6	1774.7	1822.3	1764.8
Consumer Instal. Credit	bil. $	313.4	310.8	318.5	328.3	366.2	336.2
Commerc. & Industr. Loans at Banks	bil.$	324.9	332.3	340.6	357.7	361.4	361.4
Negotiable Cert. of Deposits	bil. $	129.2	132.4	136.7	144.3	156.9	156.9
Mortgages at S & L Assns.	bil. $	502.5	507.2	514.8	518.4	522.5	522.5

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Currency + Demand Deposits	bil. $	364.5	370.8	375.6	381.5	388.4	379.1
Time Deposits, Adjusted, M2	bil. $	1764.8	1860.3	1882.4	1914.6	1959.7	1904.2
Consumer Instal. Credit	bil. $	336.2	338.6	345.4	353.9	362.7	362.7
Commerc. & Industr. Loans at Banks	bil. $	361.4	368.7	374.8	385.1	392.6	392.6
Negotiable Cert. of Deposits	bil. $	156.9	162.1	167.8	175.1	180.4	180.4
Mortgages at S & L Assns.	bil. $	522.5	525.9	531.4	537.8	545.2	545.2

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Currency + Demand Deposits	bil. $	379.1	394.9	403.7	410.3	415.9	406.2
Time Deposits, Adjusted, M2	bil. $	1904.2	1983.5	2032.7	2186.5	2224.7	2106.9
Consumer Instal. Credit	bil. $	362.7	370.3	377.5	387.2	395.4	393.4
Commerc. & Industr. Loans at Banks	bil. $	392.6	399.4	408.7	417.3	424.5	424.5
Negotiable Cert. of Deposits	bil. $	180.4	182.8	185.9	193.5	196.8	196.8
Mortgages at S & L Assns.	bil. $	545.2	551.3	556.8	564.8	572.3	572.3

*Historical Data

TABLE 1.80 INTEREST RATES, YIELDS AND SECURITIES PRICES

(Quarterly averages of monthly figures)

Indicator	Unit	1980*	1981				1981
			1 *	2 *	3	4	
3 mo Treas. Bills Rate (new issues)	%	11.51	14.37	14.83	15.05	11.79	14.01
Prime Rate	%	15.10	19.21	18.93	20.32	17.15	18.90
Mortgage Rate, New Homes	%	14.43	15.11	16.54	17.56	17.39	16.65
Aaa Bonds Rate	%	11.94	13.92	13.98	14.92	14.36	14.30
Long Term Govt. Bonds Yield	%	11.39	12.74	13.49	14.50	13.95	13.67
Standard & Poor's 500 Average	1941-43 =10	118.71	131.52	132.81	125.68	121.44	127.86

Indicator	Unit	1981	1982				1982
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	14.01	11.73	11.52	11.65	11.31	11.55
Prime Rate	%	18.90	16.02	15.31	14.78	14.45	15.14
Mortgage Rate, New Homes	%	16.65	16.72	16.01	15.25	14.53	15.63
Aaa Bonds Rate	%	14.30	14.50	13.92	13.54	12.86	13.71
Long Term Govt. Bonds Yield	%	13.67	13.65	13.58	13.50	13.31	13.51
Standard & Poor's 500 Average	1941-43 =10	127.86	123.51	125.21	126.14	128.53	125.85

Indicator	Unit	1982	1983				1983
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	11.55	11.42	11.76	11.94	12.28	11.85
Prime Rate	%	15.14	14.32	14.46	14.64	14.73	14.54
Mortgage Rate, New Homes	%	15.63	13.46	13.51	13.62	13.47	13.52
Aaa Bonds Rate	%	13.71	12.31	12.02	11.47	12.51	12.08
Long Term Govt. Bonds Yield	%	13.51	13.28	12.95	13.11	13.62	13.24
Standard & Poor's 500 Average	1941-43 =10	125.85	130.41	133.26	136.54	135.26	133.87

* Historical Data

declines in such rates. (The Wall Street Journal, passim.)

KEDI calculations show that the prime rate will be at 14 per cent at the end of this year and mortgage rates will be in the 13-14 per cent range.

The forecast of prices of bonds is optimistic. For example, it is expected here that AAA bonds rate will drop to the 12.1 per cent range at the end of this year. The year-end rate for 5-year Treasury bonds is seen as 12.7 as compared to a more current level of 14 per cent.

The KEDI forecast of the stock market remains unchanged. It is fairly optimistic. As measured by Standard & Poor's 500 average, there is a gain of 6 per cent expected this year over last year and a gain of 5 per cent in 1983. In 1984, a leveling is anticipated.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the Unemployment Rate for the year 1981 has been selected for comparison. The actual figure is from the U.S. Department of Labor release of revised data on Civilian Labor Force and Employment for the year 1981. Forecast data are from the Business Forecasts 1981, Federal Reserve Bank of Richmond, Richmond, Virginia, 1981. The following table shows the predictions of forecasters and the deviations of forecast data.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS
(Unemployment Rate.% of Civilian Labor Force)

Actual Rate for 1981: 7.6

Forecaster	Forecast	Page of Business Forecasts 1981	% of Accuracy
United California Bank	7.0	7	-7.9
A.Sommers. The Conference Board	7.7	9	+1.3

COMPARISONS OF ACCURACY
OF PREDICTIONS(Table 2.0 Contnd.)

Forecaster	Forecast	Page of Business Forecasts 1981	% of Accuracy
Metropolitan Life	7.8	11	+2.6
National Securities and Research Corporation	6.9	11	-9.2
U.S.Trust Company of New York	8.0	13	+5.3
The Merchants National Bank of Aurora	7.8	13	+2.6
United Business Service	8.0	15	+5.3
University of Chicago,Walter Fackler	7.5	15	-1.3
Harris Trust, Robert Genetski	7.8	17	+2.6
Cities Service, Peter Jedel	8.4	17	+10.5
J.A.Livingston, The Philadelphia Inquirer	7.9	19	+3.9
U.S.New and World Report	6.8	19	-10.5
Peter L. Bernstein, Inc.	8.2	20	+7.9
American Statistical Association and National Bureau of Economic Research	7.6	21	.0
Ameritrust	7.9	22	+3.9
Georgia State University	7.8	23	+2.6
The First National Bank of Chicago	8.3	24	+9.2
Manufacturers Hanover Trust Company	8.0	25	+5.3
UCLA	7.8	27	+2.6
Philadelphia National Bank	8.2	28	+7.9
WGN Continental Broadcasting Co., Alex Burkholder	8.0	29	+5.3
Edward Hyman, and Cyrus Lawrence	7.8	29	+2.6
Bankers Trust	7.8	30	+2.6
Standard & Poor's Corporation	7.8	30	+2.6
Data Resources, Inc.	7.9	32	+3.9
KEDI	7.4	33	-1.6
Fidelity Bank	7.8	34	+2.6
Morgan Guaranty Trust Company	8.0	35	+5.3
Chase Econometrics	8.1	36	+6.6
Equitable Life Assurance Soviety	8.1	37	+6.6

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KEDI ECONOMIC SURVEY

APRIL 1982 ISSUE

KENT ECONOMIC AND DEVELOPMENT INSTITUTE

P.O. Box 641/Kent, Ohio 44240/U.S.A.

Vol. 7, No. 10, April 1, 1982

KEDI ECONOMIC SURVEY

APRIL 1982 ISSUE

President: Vladimir J. Simunek

This updated monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquiries should be directed to: KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, Kent Student Center, KSU Campus, Kent, OH 44242, U.S.A. Kent State University Foundation, Inc., and Kent Economic and Development Institute are not liable for any claim based on deviation of forecast data from actual data. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

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Publication No. 048200704
KEDI April 1,1982

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KENT ECONOMIC AND
DEVELOPMENT INSTITUTE April 1, 1982

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KENT ECONOMIC AND
DEVELOPMENT INSTITUTE April 1, 1982

1.00 OVERVIEW AND ASSUMPTIONS

1.01 OVERVIEW

KEDI has not changed the basic forecast made here since the latter part of 1981: Some recovery will begin in the second part of this year, but the growth will be quite slow at that time. The economy is sectorized. By the end of this year, the sectors that experience some growth, such as defense and coal mining, will slightly more more than compensate for those that will still be in the pits, such as autos, construction, and appliances. Still, gains overall will be gradual with some acceleration in 1983 and 1984. Both of those years will reflect continued growth and lower unemployment. In 1983, the rate of inflation will still be low, but it will move up again in 1984. During 1985 as inflation moves up, there will added restrictive measures to control it. Growth will be slow that year and in 1986 while the jobless rate increases slightly.

The Administration is beginning to acknowledge that recovery in the last six months of this year might not be up to the levels they had been predicting--levels that KEDI has consistently viewed as too optimistic. Back in December, the chief economist at the White House, Murray Weidenbaum, said the recession would bottom out in that fourth quarter and that housing and autos would lead us out of flat GNP in the first half of 1982 into the second half GNP growth of 5 per cent. KEDI did not agree then and does not agree now. Housing and autos are not going to be leaders. They are still among the last. As was stated before, in this case, the last shall not be the first. The Administration is now not as sure that recovery will begin in this second

OVERVIEW

quarter. They cite interest rates levels as the reason.

Defense orders will provide the push to move the economy forward. Gains in such orders and the mid-year round of tax cuts and incentives will take time to show benefits. It takes time to trickle down to the economy in general. There will be no substantial changes in housing and autos. Without that, speedy recovery cannot take place. The downward trend predicted by KEDI late in 1981 as extending into the second quarter of 1982 is being shown as reality. The declines that have occurred were a bit steeper than what was anticipated at that time. Growth in the second half of the year is now seen as just barely edging above first half negative moves. It will be on a slight incline with the fourth quarter performance being somewhat better than the third quarter. That will lead us into a bit more acceleration during 1983.

The United Nations Economic Commission for Europe predicted that growth in Europe in 1982 will be less than the 1.5 per cent rate. They expressed doubt that the U.S.A. could achieve the 3 per cent growth the Administration foresees between the last quarter of 1981 and 1982. KEDI certainly agrees.

1.02 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, the changes concern the updates of Assumptions No.1, and No.2.

ASSUMPTIONS

1. In 1986, all U.S. demand for oil should be met. In 1982, it is expected the weighted price of oil will be $33; in 1983 it will go up to $34 per barrel; in 1984, to $36 per barrel; in 1985, to $39 per barrel; and in 1986, to $40 per barrel.

2. It is expected, that the Mid East crisis will continue throughout this year, and more normal economic conditions, including a significant resumption in the area of oil exports, will take place not eariler than in 1984.

3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1982-1986 period. In 1982, some relaxation, and in 1983-84, tightening is assumed.

4. Increases in state and local taxation in 1982-1986 are anticipated.

5. Our foreign trade with China will gain a substantial momentum in 1982 and following years.

6. In 1982 and 1983 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1984. The years 1984 and 1985 should bring U.S. record crops.

7. It is projected here that the average rates of growth in 1982-1986 in the major industrial countries be as follows for real GNP: West Germany 3.2%, Japan 3.5%, Italy 2.2%, Great Britain 2.1%, France 2.3%.

8. No drastic changes in existing international relationships are assumed in this forecast.

The April 1982 KEDI forecast is highlighted in Table 1.0 on page No.4.

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE

MONTH: April 1,1982

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1981	1982	1985	1986
Gross National Product	bil. const. 72 $	1510.2	1504.7	1719.6	1796.5
Index of Industrial Production	1967 =100	150.9	146.1	170.1	176.3
Capacity Utilization	%	77.8	72.5	80.0	81.9
Unemployment Rate	%	7.6	8.7	6.9	7.0
Private Housing Starts	mil. units	1.091	1.080	1.730	1.827
Car Sales	mil. units	8.6	8.2	9.3	9.8
Implicit GNP Price Deflator	1972 =100	193.7	207.5	250.7	269.4
Consumer Price Index	1967 =100	272.2	291.8	366.2	394.8
Producer Price Index	1967 =100	269.7	282.6	364.1	397.5
Federal Deficit	bil. $	-62.9	-97.6	-46.5	-34.7
Personal Income	bil. $	2404.1	2553.5	3298.7	3580.4
Prime Rate	%	18.87	15.53	13.42	13.02
Mortgage Rate	%	16.52	15.96	12.56	12.74
Currency plus Demand Deposits	bil. $	363.5	372.3	411.8	420.9
Commercial and Industrial Loans	bil. $	360.6	372.3	456.1	478.3

1.10 REAL GROWTH

(Table 1.10 on page 7)

Recent data continue to confirm the forecast that has been maintained here; the recession reaching bottom in the first quarter. The second quarter will be close to flat, and then some growth will be realized in the last six months of the year. Information that points to the bottom levels of the recession will be covered, then data concerning a plateau being reached, and, thirdly, news that points to some degree of growth.

Signs of the Bottom of the Recession

1. Factory orders slipped 1.2 per cent in January after edging down 0.3 per cent in December. Michael Evans of Evans Economics viewed the Commerce Department's report as very bad news. He does not expect the economy to level until the third quarter and expand in the last three months if interest rates don't halt it. KEDI does not agree. Some expansion will begin earlier than the fourth quarter of this year.
2. A February survey of business plant and equipment spending shows a drop of 1 per cent, inflation adjusted, in such plans for this year as compared to 1981. The latest report shows that nonfarm businesses plan to spend approximately $345 million for new plant and equipment this year which is an unadjusted gain of 7.3 per cent from the 1981 level.
3. Auto sales were down 15.9 per cent in February. Automakers have slashed March output plans. Further significant declines are not foreseen. More details on this and the forecast can be found in a new section of this survey devoted to this industry--Section 1.42.

REAL GROWTH

Reaching the Plateau

1. Building awards increased by 4 per cent in January. A slight increase is expected in February, and a more significant gain in March this year.
2. Retail sales gained in February. Indications are that March sales will continue in the upwards trend. They were up 1.6 per cent.
3. Buying agents surveyed by the National Association of Purchasing Management, Inc. view the economy in February as in a slower decline than had been true in prior months. For the first time since 1975, there was an increase in the portion of agents that said prices were lower. Twenty three per cent reported lower prices in February as opposed to 13 per cent in January. The survey also indicated the purchased materials inventories continued to move downward.
4. Factory inventories were reduced by 0.4 per cent in January. They were down 0.7 per cent in December. Preliminary reports show that the inventory reductions have continued throughout February and March. These months of shrinkages are viewed here as assisting production shortly by reflecting new orders to adjust inventories.

Moving Ahead

1. Industrial output went up by 1.6 per cent during February, seasonally adjusted. That was the first gain since last July. However, the gain is seen as largely weather connected. A very harsh January caused part of the weakness that month so February which was not as lousy, weather wise, looked better by comparison. KEDI agrees with Allen Sinai of Data Resources that the change here alone is not

TABLE 1.10 REAL GROWTH
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2*	3*	4	
Gross National Product, 1972 $	bil. $	1480.7	1516.4	1510.4	1515.8	1498.4	1510.2
Index of Industrial Production	1967=100	147.1	151.8	152.5	153.0	146.3	150.9
Unemployment Rate	%	7.2	7.4	7.4	7.3	8.4	7.6
Capacity Utilization Rate	%	78.7	79.9	79.8	79.3	72.2	77.8
Private Housing Starts	mil. units	1.292	1.361	1.166	.968	.871	1.091
Car Sales	mil. units	9.0	10.1	7.8	9.1	7.3	8.6

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1510.2	1486.1	1495.1	1510.3	1527.4	1504.7
Index of Industrial Production	1967=100	150.9	139.8	142.3	149.0	153.2	146.1
Unemployment Rate	%	7.6	8.9	9.3	8.6	8.2	8.7
Capacity Utilization Rate	%	77.8	71.4	71.9	72.8	73.9	72.5
Private Housing Starts	mil. units	1.091	.891	1.077	1.157	1.195	1.080
Car Sales	mil. units	8.6	8.3	7.8	8.2	8.5	8.2

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1504.7	1546.3	1560.5	1581.2	1604.2	1573.1
Index of Industrial Production	1967=100	146.1	156.7	160.4	165.7	170.2	163.3
Unemployment Rate	%	8.7	8.0	7.7	7.5	7.3	7.6
Capacity Utilization Rate	%	72.5	76.4	78.2	79.5	82.1	79.1
Private Housing Starts	mil. units	1.080	1.237	1.500	1.612	1.640	1.497
Car Sales	mil. units	8.2	8.7	8.9	9.1	9.3	9.0

* Historical Data

a sign that the recession is over.

2. Housing starts showed a gain of 6.5 per cent in February in the adjusted annual rate. The overall level was the best since the middle of last summer. The reader is referred to Section 1.41 for more details on housing.

3. Factory operating rate increased to an adjusted 71.8 per cent in February as compared to the revised rate of 70.6 per cent for January and a December figure of 72.9. February of 1982 was still 8 percentage points below the adjusted 79.8 per cent rate a year earlier. Again, just what role the weather played will not be clear until March figures are recorded.

4. New orders for durable goods went up in February. The 1.5 per cent increase was the first since November. The February total was $79.27 billion.

In all, the news this month is similar to the developments last month. That is, it is a mixed bag with some preponderance of declines over items showing near stability or hints of growth.

1.20 PRICES

(Table 1.20 on page 10)

The forecast for the rate of inflation has been revised slightly. In the last issue, a 1982 rate of 6.8 per cent was forecast. Now, the change in the CPI between last year and this year is seen as being 7.2 per cent. The main reason for the revision is the upwards revision of forecasts of mortgage rates, entertainment, and service

PRICES

items in the Consumer Price Index.

KEDI is more optimistic than the average of the Blue Chip Economic Indicators that expect inflation to be 7.5 per cent this year. KEDI predicts that the inflation rate will move up toward the end of the year to yield the average change of 7.3 per cent when compared with the end of 1981. The average 1983 rate is seen as 7.5 per cent, 1984 as 7.9, and 1985 as being 8.0 per cent above the prior year. This Institute agrees with Paul Markowski, an economist at Sterling, Grace & Co., that the cooling of inflation cannot last for long.

The forecast for the rate of increase of the Producer Price Index has been revised downwards a bit. The main reason for the revision is the fractional decline in producers' prices. Such prices were 0.1 per cent, seasonally adjusted, lower in February than they were in January, according to estimates by the Labor Department. Prices for goods at the crude and intermediate stage also edged down in February. The lack of increase in all three levels of such prices is good news for consumers. It indicates that the Consumer Price Index will be close to stable over the next three to six months.

1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 12)

The KEDI forecast of the rate of unemployment remains essentially unchanged. The February 8.8 per cent unemployment rate corresponds with the assumption here that unemployment will peak in the second

TABLE 1.20 PRICES AND NOMINAL GNP

(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2*	3*	4	
Consumer Price Index, NSA	1967=100	247.9	262.9	269.7	275.3	280.7	272.2
Producer Price Index, NSA **	1967=100	246.8	263.4	269.4	271.2	274.6	269.7
Implicit GNP Price Deflator	1972=100	177.4	188.1	191.1	195.7	200.1	193.7
Gross National Product	bil. $	2626.1	2853.0	2885.8	2965.0	2998.3	2925.6
Personal Consump Expenditures	bil. $	1672.8	1810.1	1829.1	1883.9	1908.3	1857.9
Gross Private Dom. Investment	bil. $	395.3	437.1	458.6	463.0	443.3	450.5

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Consumer Price Index, NSA	1967=100	272.2	283.6	287.5	294.2	302.0	291.8
Producer Price Index, NSA**	1967=100	269.7	277.6	279.4	284.9	289.0	282.6
Implicit GNP Price Deflator	1972=100	193.7	203.0	206.0	209.1	211.9	207.5
Gross National Product	bil. $	2925.6	3016.8	3080.5	3158.6	3236.9	3123.2
Personal Consumpt Expenditures	bil. $	1857.9	1921.2	1959.7	1987.4	2021.5	1972.5
Gross Private Dom. Investment	bil.$	450.5	462.1	475.3	490.2	529.0	489.2

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Consumer Price Index, NSA**	1967=100	291.8	306.0	310.7	316.2	322.7	313.9
Producer Price Index, NSA	1967=100	282.6	296.1	302.2	307.5	313.8	304.9
Implicit GNP Price Deflator	1972=100	207.5	216.3	220.2	224.9	228.1	222.3
Gross National Product	bil. $	3123.2	3339.1	3436.2	3556.4	3659.3	3497.8
Personal Consump Expenditures	bil. $	1972.5	2076.1	2134.5	2190.2	2253.7	2163.6
Gross Private Dom. Investment	bil. $	489.2	542.6	563.8	579.6	591.4	569.4

*Historical Data

**Finished Goods

EMPLOYMENT AND LABOR

quarter of this year and then gradually decline to yield an average of 8.7 per cent this year. It will average a lower rate of 7.6 per cent in 1983 according to calculations here.

At the White House, improvement in the rate is not expected until the end of the year. This Institute is not as pessimistic. The view of L. Chimerine of Chase Econometrics that the unemployment rate would peak at around 9.5 per cent in the next few months is shared here. The horizon, as seen by Joel Popkin & Co., a Washington-based consulting firm, includes joblessness over 10 per cent around September as seen here as being off the mark--looking through a glass darkly. Looking toward the horizon here does not exactly yield rainbows and roses, but there are no black storm clouds of such joblessness.

1.40 HOUSING AND AUTOMOBILES

(Tables 1.41 and 1.42 on pages 14 and 16)

Housing starts increased by 6.5 per cent in February to an adjusted annual rate of 953,000 from the January level. There was a jump of 41 per cent in work started on multifamily housing that more than offset the 11 per cent decline in single-family housing starts. Still, that is well below more normal rates of starts. The National Association of Realtors estimates that in the past 39 months, about 2 million housing-related jobs have gone. The industry has been in the pits.

KEDI maintains its forecast, that no big rebounds are in sight over

TABLE 1.30 EMPLOYMENT AND LABOR

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2*	3*	4	
Population	mil.	223.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	104.7	108.1	108.8	108.7	109.2	108.7
Employed	mil.	97.1	100.1	100.8	100.7	100.1	100.4
- Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
- Non Agriculture	mil.	93.7	96.8	97.5	97.3	96.8	97.1
Unemployment Rate	%	7.19	7.38	7.39	7.37	8.35	7.62

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Population	mil.	225.9	228.0	229.2	230.4	231.4	229.6
Civilian Labor Force	mil.	108.7	109.5	110.3	110.9	111.8	110.6
Employed	mil.	100.4	99.8	100.1	101.3	102.6	100.9
- Agriculture	mil.	3.3	3.4	3.4	3.3	3.3	3.4
- Non Agriculture	mil.	97.1	96.4	96.7	98.0	99.3	97.5
Unemployment Rate	%	7.62	8.86	9.27	8.62	8.19	8.74

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Population	mil.	229.6	231.5	232.2	232.9	233.4	232.5
Civilian Labor Force	mil.	110.6	112.6	113.8	114.9	115.8	114.3
Employed	mil.	100.9	103.5	105.0	106.3	107.4	105.6
- Agriculture	mil.	3.4	3.3	3.4	3.3	3.4	3.4
- Non Agriculture	mil.	97.5	100.2	101.6	103.0	104.0	102.2
Unemployment Rate	%	8.74	8.04	7.72	7.45	7.27	7.62

* Historical Data

HOUSING

the next few years, but some recovery will take place.

In addition to housing starts going up, the other good news currently is that in February, building permits issued were up for the fourth month in a row. Permits rose 0.7 per cent to an adjusted annual rate of 838,000. Granted, a year ago such permits were at an annual rate of 1.16 million, but given general economic conditions, the four months of slight movement upward are a good sign.

People are buying mobile homes in increasing numbers. Last year such homes accounted for 36 per cent of all new single-family homes sold. The Manufactured Housing Institute reported in early March that over 240,000 mobile homes were sold in 1981, a gain of 8.6 per cent from the prior year. KEDI projects that sales of mobile homes will continue to increase throughout the 1982-1986 period.

The bad new concerns new-home sales. They were off by 22.8 per cent in January from the December level. On a year-to-year comparison, such sales were 34.5 per cent lower in January. Still, the severe weather in general did play some part. There isn't much appeal in sub-freezing temperatures to house hunt or contemplate continuously opened doors as one's possessions are moved. At the end of January, there was a 9.3 month's supply of houses on the market, if the January adjusted pace of 353,000 is used.

The median sales price of a new single-family house was $68,000 whereas it was $67,600 a year earlier. From the buyer's standpoint the small gain over 12 months in the price is viewed favorably after years of rapid inflation in the home market. KEDI expects the gain

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE

MONTH: April 1, 1982

TABLE 1.41 HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2*	3*	4	
Single-Family Housing Starts	mil.	.860	.850	.775	.638	.540	.701
Multifamily Housing Starts	mil.	.473	.511	.391	.330	.331	.391
Mobile Home Shipments	mil.	.222	.248	.255	.245	.209	.239
Housing Permits Issued	mil.	1.117	1.177	1.105	.875	.745	.974
Construction Costs-Commerc.	1972=100	198.5	198.7	214.6	218.9	223.1	216.4
Construction Costs-Resident.	1972=100	198.6	209.5	215.1	217.8	223.6	216.5

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Single-Family Housing Starts	mil.	.701	.532	.581	.638	.657	.599
Multifamily Housing Starts	mil.	.391	.369	.496	.519	.538	.480
Mobile Homes Shipments	mil.	.239	.220	.248	.276	.292	.259
Housing Permits Issued	mil.	.974	.842	.867	.961	1.089	.940
Construction Costs-Commerc.	1972=100	216.4	227.1	238.6	246.3	254.0	241.6
Construction Costs-Resident.	1972=100	216.5	226.0	236.2	242.1	253.9	239.5

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Single-Family Housing Starts	mil.	.599	.720	.876	.893	.908	.849
Multifamily Housing Starts	mil.	.480	.517	.624	.719	.732	.648
Mobile Homes Shipments	mil.	.259	.314	.349	.380	.356	.350
Housing Permits Issued	mil.	.940	1.168	1.398	1.536	1.619	1.430
Construction Costs-Commerc.	1972=100	241.6	257.8	266.0	277.3	283.0	271.1
Construction Costs-Resident.	1972=100	239.5	257.5	268.6	274.1	280.4	270.1

* Historical Data

AUTOMOBILES

in median price will be much less this year and in the following years.

Often this Institute is more optimistic about sectors of the economy than most other forecasters. In the case of U.S. made autos and total auto sales, KEDI is more pessimistic than most. As the following table shows, total sales expected by KEDI for this year are 8.2 million cars with 6.3 million of these being domestically produced. A more normal rate of sales would total 10 to 10.5 million.

Passenger Car Sales Forecasts
for 1982 (million units)

Forecaster	Total Sales	Domestic Car Sales
KEDI	8.2	6.3
AmeriTrust	9.2	
Georgia State University	9.0	
Harris Trust and Savings Bank		7.0
Chemical Bank	9.2	
UCLA	8.3	
Paul Harmon, ARMCO		6.8
Standard & Poor's	9.1	
Manufacturers Hanover Trust		6.8
The First National Bank of Chicago	9.8	
Morgan Guaranty Trust Co.		6.1

Forecast data are taken from the Business Forecasts 1982 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1982).

The outlook is hardly good for cars and the vast array of industries connected to it. In early March, industry sources again cut their production plans to a level for March 19.9 per cent below the 1981 total. That would make first quarter output 29.3 per cent below last years first quarter for a total of 1.09 million units. More drops

TABLE 1.42 AUTOMOBILES
(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2*	3*	4	
Passenger Car Sales	mil.	8.9	10.1	7.8	9.1	7.3	8.6
-Domestic	mil.	6.6	7.4	5.6	6.9	5.2	6.3
-Imported	mil.	2.4	2.7	2.2	2.2	2.2	2.3
Dealers Inventories of Pass. Cars **	mil.	1.440	1.216	1.665	1.427	1.471	1.471
Factory Shipments **	mil.	6.400	1.534	2.027	1.312	1.542	6.415
Light-duty Truck Sales **	mil.	1.680	.459	.460	.456	.372	1.747

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Passenger Car Sales	mil.	8.6	8.3	7.8	8.2	8.5	8.2
-Domestic	mil.	6.3	6.1	5.9	6.3	6.7	6.3
-Imported	mil.	2.3	2.2	1.9	1.9	1.8	1.9
Dealers Inventories of Pass. Cars **	mil.	1.471	1.492	1.586	1.594	1.483	1.483
Factory Shipments **	mil.	6.415	1.598	1.648	1.389	1.457	6.092
Light-duty Truck Sales **	mil.	1.747	.365	.401	.472	.408	1.646

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Passenger Car Sales	mil.	8.2	8.7	8.9	9.1	9.3	9.0
-Domestic	mil.	6.3	6.9	7.0	7.1	7.4	7.1
-Imported	mil.	1.9	1.8	1.9	2.0	1.9	1.9
Dealers Inventories of Pass. Cars **	mil.	1.483	1.527	1.614	1.573	1.542	1.542
Factory Shipments **	mil.	6.092	1.612	2.011	1.619	1.828	7.070
Light-duty Truck Sales **	mil.	1.646	.424	.516	.508	.476	1.924

*Historical data

** Not seasonally adjusted

are anticipated in April.

Car sales in the first 10 days of March were 31.8 per cent lower than the year-ago total. Rebates are not attracting customers as much as they had been in the past, except for some of the smaller cars. The early March sales were the worst in seven years. Preliminary figures for mid-March sales show more decline. Such sales were down a whopping 43.5 per cent from the same period in 1981.

The Table 1.42 in this Section shows KEDI projections for 1982-1983. As compared to 1981, the decline for 1982 sales is approximately 5 per cent. A more significant gain in car sales is expected not earlier than in 1983.

It is possible that future problems may exist if the slight gain in demand for full-sized cars continue to edge up just as Detroit is gearing for small car production. Perhaps Detroit will get its finger on the pulse of the public and get their production portions in line with consumer demands.

1.50 GOVERNMENT BUDGETS

(Table 1.50 on page 19)

KEDI maintains its forecasts of federal deficits not in excess of $100 billion in fiscal years 1983 and 1984. However, this is based on the assumption that no major increases will take place in the proposed expenditures and that receipts will increase by an additional $20 billion from taxes. Without these assumptions, red ink could surpass the $100 billion mark. As it concerns the fiscal 1982 deficit, KEDI agrees with Mr.Stockman that the deficit may go above $100 billion due mainly to higher-than-anticipated farm payments.

In the projection for the state and local budgets, personal income taxes and indirect taxes have been revised upwards when compared with the previous data. Additional state and local taxes are anticipated.

1.60 INCOME

(Table 1.60 on page 20)

The forecast of personal income and its components remains essentially the same when compared with the previous forecast. The forecast of after tax profits has been revised slightly downward mainly due to the revision of expected profits in the oil, airlines, automobiles, and chemicals industries. The forecast shows a 2.8 per cent drop in the 1982 profits when compared with the year 1981. In 1983, corporate after tax profits are expected to gain approximately 15 per cent. The forecast has significant increases in the following industries: rubber, plastics, chemical products, textile, metal mining, electrical machinery, and food and kindred products.

The forecast of personal saving shows substantial increases of 20 per cent in 1982 as compared to 1981, and 10 per cent in 1983 as compared to 1982.. Main contributors to these gains are the expected federal income tax cuts in 1982 and 1983.

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1 *	2 *	3 *	4	
Federal Govt.:							
Income Taxes	bil. $	257.8	283.3	293.1	306.4	302.0	296.2
Corporate Profit Tax Accruals	bil. $	70.1	74.6	63.3	66.4	58.8	65.8
Surplus./Deficit	bil. $	-61.2	-46.6	-50.0	-55.7	-99.5	-62.9
State and Local Governments:							
Income Taxes	bil. $	80.7	88.6	89.7	93.3	96.1	91.9
Corporate Profit Tax Accruals	bil. $	12.2	13.1	11.6	11.7	10.6	11.8
Surplus./Deficit	bil. $	29.1	36.9	36.0	37.8	36.0	36.6

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	296.2	297.4	298.1	278.6	296.5	292.7
Corporate Profit Tax Accruals	bil. $	65.8	56.5	54.1	60.7	64.3	58.9
Surplus./Deficit	bil. $	-62.9	-101.5	-97.8	-105.6	-85.4	-97.6
State and Local Governments:							
Income Taxes	bil. $	91.9	97.3	98.9	102.1	104.5	100.7
Corporate Profit Tax Accruals	bil. $	11.8	11.3	11.3	12.7	13.4	12.2
Surplus./Deficit	bil. $	36.6	35.0	34.7	34.2	32.1	34.0

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	292.7	306.5	323.7	306.8	328.7	316.4
Corporate Profit Tax Accruals	bil. $	58.9	70.1	75.2	84.3	90.7	80.1
Surplus./Deficit	bil. $	-97.6	-77.2	-80.3	-90.6	-87.3	-83.9
State and Local Governments:							
Income Taxes	bil. $	100.7	107.2	109.8	112.4	114.3	103.2
Corporate Profit Tax Accruals	bil. $	12.2	14.2	15.0	17.3	18.1	15.8
Surplus./Deficit	bil. $	34.0	31.5	32.3	32.4	32.8	32.3

* Historical Data

TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1*	2*	3*	4	
Personal Income	bil. $	2160.2	2319.8	2368.5	2441.7	2486.5	2404.1
Personal Dispos. Income	bil. $	1821.77	1947.8	1985.6	2042.0	2088.5	2016.0
Compensation of Employees	bil. $	1596.5	1722.4	1752.0	1790.7	1821.3	1771.6
Corp. Profits After Tax	bil. $	163.1	169.2	152.7	156.3	145.2	155.9
Personal Saving	bil. $	101.3	88.9	106.6	106.9	128.0	107.6
Average Weekly Earnings	$	297.4	310.7	316.9	318.6	324.1	317.6

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Personal Income	bil. $	2404.1	2492.1	2515.4	2572.3	2634.3	2553.5
Personal Dispos. Income	bil. $	2016.0	2097.4	2118.4	2192.6	2233.3	2160.4
Compensation of Employees	bil. $	1771.6	1829.8	1840.1	1892.5	1950.1	1878.1
Corp. Profits After Tax	bil. $	155.9	143.1	144.8	154.9	169.7	153.1
Personal Saving	bil. $	107.6	125.4	128.9	136.7	128.6	129.9
Average Weekly Earnings	$	317.6	320.2	326.5	334.8	342.1	330.9

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Personal Income	bil. $	2553.5	2713.4	2785.2	2879.8	2970.5	2837.3
Personal Dispos. Income	bil. $	2160.4	2299.7	2351.7	2460.6	2627.5	2434.9
Compensation of Employees	bil. $	1878.1	2008.6	2062.3	2134.1	2212.4	2104.4
Corp. Profits After Tax	bil. $	153.1	172.5	174.5	177.6	180.5	176.2
Personal Saving	bil. $	129.9	129.7	136.4	148.5	146.4	135.0
Average Weekly Earnings	$	330.9	350.7	361.2	369.8	375.4	364.3

* Historical Data

1.70 MONEY AND CREDIT

(Table 1.70 on page 22)

The projection of the money supply M1 and M2 and other monetary aggregates remains unchanged. This year, M1 is seen as within the Federal Reserve targets--more specifically at the upper limits of the 3-5 per cent range. For M2, KEDI maintains the forecast that it will grow 8 per cent which also is in line with the Fed's target.

During 1983 and 1984, this Institute sees some acceleration in M1 growth: 5.5 and 6.0 per cent respectively. The corresponding data for M2 are: 7.5 and 8.5 per cent.

The forecast for commercial and industrial loans shows significant increases in the latter part of this year to yield 7 per cent growth over 1981. Rapid growth in the following two years is projected in conjunction with the expected recovery then.

The forecast for consumer installment credit remains essentially the same. Net credit demand in the U.S. is forecast at 3 per cent above 1981.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 24)

In general, the forecast for interest rates has been slightly revised upwards when compared with the last forecast. The change is small: an average of 0.25 per cent for the prime rate and other short-term rates for the last half of this year and throughout 1983. The mortgage and other long-term interest rates have been raised

TABLE 1.70 MONEY AND CREDIT

(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1980*	1981				1981
			1 *	2 *	3 *	4	
Currency + Demand Deposits	bil. $	367.7	365.8	364.5	361.2	362.3	363.5
Time Deposits, Adjusted, M2	bil. $	1601.0	1718.4	1743.6	1774.7	1807.0	1760.9
Consumer Instal. Credit	bil. $	313.4	310.8	318.5	328.3	333.1	333.1
Commerc. & Industr. Loans at Banks	bil.$	328.8	332.3	340.6	357.7	360.6	360.6
Negotiable Cert. of Deposits	bil. $	129.2	132.4	136.7	144.3	156.9	156.9
Mortgages at S & L Assns.	bil. $	502.5	507.2	514.8	518.4	517.6	517.6

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Currency + Demand Deposits	bil. $	363.5	365.0	368.9	374.3	380.9	372.3
Time Deposits, Adjusted, M2	bil. $	1760.9	1838.2	1871.3	1910.2	1950.1	1892.5
Consumer Instal. Credit	bil. $	333.1	335.9	340.7	350.7	357.2	357.2
Commerc. & Industr. Loans at Banks	bil. $	360.6	368.1	374.9	384.2	392.7	392.7
Negotiable Cert. of Deposits	bil. $	156.9	162.1	167.8	175.1	181.2	181.2
Mortgages at S & L Assns.	bil. $	517.6	519.8	523.6	528.9	535.7	535.7

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Currency + Demand Deposits	bil. $	372.3	385.6	391.1	396.2	402.8	393.9
Time Deposits, Adjusted, M2	bil. $	1892.5	1980.2	2019.6	2164.7	2208.9	2093.4
Consumer Instal. Credit	bil. $	357.2	366.8	372.4	382.6	390.5	390.5
Commerc. & Industr. Loans at Banks	bil. $	392.7	398.7	405.6	414.9	421.6	421.6
Negotiable Cert. of Deposits	bil. $	181.2	183.4	186.7	194.2	198.5	198.5
Mortgages at S & L Assns.	bil. $	535.7	540.6	549.8	558.7	566.4	566.4

*Historical Data

by an average of 0.10 per cent for the same period.

In mid-March four large banks raised their prime lending rates to 16.5 per cent after they had cut them to 16 just the week before. This increase is seen as temporary.

KEDI maintains the prediction that interest rates will be decreasing in small increments during this year and next. The long-term forecast shows some higher rates in the latter part of 1984 and resumption of declines in 1985 and 1986.

The forecast of the stock market remains essentially unchanged. As measured by Standard and Poor's 500 average no significant gains or losses are anticipated in the 1982-1983 period. This year, a gain of 6 per cent in such prices is forecast over the prior year. In 1983, that increase is seen as approximately 5 per cent. In 1984, KEDI expects a rejuvenation of interest in stocks that are presently unpromissing in growth: steel, airlines, construction, lumber and wood. Also at that time, the start of a better showing in auto and rubber industry stocks is expected.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the Implicit GNP Price Deflator for the year 1981 has been selected for comparison. The actual figure has been released by the U.S. Department of Commerce in March this year. Forecast data are from the Business Forecasts 1981, Federal Reserve Bank of Richmond, Richmond, Virginia, February 1981. Some forecasters were unable to catch the December 1980 revision of the National Income and Product data, and their forecasts may deviate slightly because of that reason. The following table shows the predictions of forecasters and deviations of forecast data. The Table is presented on page 25.

TABLE 1.80 INTEREST RATES, YIELDS AND SECURITIES PRICES

(Quarterly averages of monthly figures)

Indicator	Unit	1980*	1981				1981
			1*	2*	3*	4	
3 mo Treas. Bills Rate (new issues)	%	11.51	14.37	14.91	15.05	11.75	14.03
Prime Rate	%	15.10	19.21	18.93	20.23	17.01	18.87
Mortgage Rate, New Homes	%	14.43	15.10	16.15	17.50	17.39	16.52
Aaa Bonds Rate	%	11.94	13.92	13.98	14.92	14.62	14.36
Long Term Govt. Bonds Yield	%	11.39	12.74	13.49	14.51	14.14	13.72
Standard & Poor's 500 Average	1941-43 =10	118.71	131.52	132.81	125.68	122.18	128.05

Indicator	Unit	1981	1982				1982
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	14.03	12.43	12.06	11.89	11.80	12.05
Prime Rate	%	18.87	16.14	15.82	15.31	14.86	15.53
Mortgage Rate, New Homes	%	16.52	16.89	16.32	15.67	14.94	15.96
Aaa Bonds Rate	%	14.36	14.67	14.38	14.07	13.71	14.21
Long Term Govt. Bonds Yield	%	13.72	14.12	14.01	13.86	13.56	13.89
Standard & Poor's 500 Average	1941-43 =10	128.05	120.48	123.42	125.23	127.86	124.25

Indicator	Unit	1982	1983				1983
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	12.05	11.69	11.80	12.18	12.63	12.08
Prime Rate	%	15.53	14.73	14.81	14.96	14.87	14.84
Mortgage Rate, New Homes	%	15.96	14.75	14.48	13.87	13.46	14.14
Aaa Bonds Rate	%	14.21	13.26	12.85	12.16	12.78	12.76
Long Term Govt. Bonds Yield	%	13.89	13.32	13.04	13.28	13.71	13.34
Standard & Poor's 500 Average	1941-43 =10	124.25	129.26	131.47	133.56	134.75	132.26

* Historical Data

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

(Implicit GNP Price Deflator for the year 1981.
1972 = 100.)

Actual figure: 193.7

Forecaster	Date of Forecast	Forecast	Page of Business Forecasts 1981	% of Accuracy
United California Bank	10/80	196.7	7	+1.5
Albert T. Sommers, The Conference Board	11/20/80	197.9	9	+2.2
Metropolitan Life	12/80	198.5	11	+2.4
U.S.Trust Company of New York	12/80	199.4	13	+2.9
Walter D. Fackler, University of Chicago	12/8/80	198.2	15	+2.3
Peter J. Hedel, Cities Service	12/23/80	199.5	17	+2.9
Peter L.Bernstein,Inc.	11/1/80	196.6	20	+1.5
American Statistical Assn. and National Bureau of Economic Research	11/80	198.3	21	+2.4
AmeriTrust	11/80	197.1	22	+1.8
Georgia State University	11/80	198.2	23	+2.3
The First National Bank of Chicago	11/8/80	198.3	24	+2.4
Manufacturers Hanover Trust Company	11/12/80	195.2	25	+.8
Chemical Bank, Economic Research Department	11/24/80	198.3	26	+2.4
Alex A. Burkholder, WGN Continental Broadcasting	12/8/80	197.4	29	+1.9
Bankers Trust	12/10/80	199.2	30	+2.8
KEDI	12/30/80	192.3	33	-.7
Fidelity Bank	12/31/80	199.7	34	+3.1
Morgan Guaranty Trust Company	1/6/81	194.7	35	+.5
Chase Econometrics	1/7/81	195.7	36	+1.0

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KEDI ECONOMIC SURVEY

MAY 1982 ISSUE

KENT ECONOMIC
AND DEVELOPMENT
INSTITUTE

P.O. Box 641/Kent, Ohio 44240/U.S.A.

Vol. 7, No. 11, May 1, 1982

KEDI ECONOMIC SURVEY

MAY 1982 ISSUE

President: Vladimir J. Simunek

This updated monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquiries should be directed to: KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, Kent Student Center, KSU Campus, Kent, OH 44242, U.S.A. Kent State University Foundation, Inc., and Kent Economic and Development Institute are not liable for any claim based on deviation of forecast data from actual data. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

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Publication No. 058200714
KEDI May 1, 1982

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KENT ECONOMIC AND
DEVELOPMENT INSTITUTE May 1, 1982

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This forecast uses the April, 1982, U.S. Department of Commerce revised National Income and Product data. Also used is the April 1982, Board of Governors of the Federal Reserve System release of the Index of Industrial Production, and the latest available data on prices, employment, industrial, and financial developments.

1.00 OVERVIEW AND ASSUMPTIONS

1.01 OVERVIEW

The basic forecast remains essentially the same with a slight general downward revision. There will be some slow starts tpward recovery in the latter part of the year. Some sectors will move ahead more rapidly such as defense, and coal mining. Their gains will help offset the two basic industries that have contracted to lows not seen for decades, i.e., cars and housing. Gradual growth will pick up momentum during 1983 and continue to accelerate in 1984 with lower unemployment for both years, but lower inflation is only seen for this year and next year. The reader is referred to Table 1.00.

In looking over the policies of the Administration, it is concluded that they deserve an A in fighting inflation. The high rates of the 1970's and the start of the 1980's reminded those interested in historical patterns of the eventual devastation wrought to the economies and lives of many in European nations that did not bring years of inflation under control. Granted, the government does not control our economy, but it does have an impact. Reagan and his advisors have had success in fighting price leaps. The rate is going down and the general consensus of forecasters is that it will remain low in this year and next year.

However, the report card does contain a below average grade for the overly optimistic projections they made since the start of their reign. There were eventual negative results in the increasingly disbelieving and disillusioned business sector in terms of plans for investment, for example.

Also, the cost of the inflation battle is seen here as high.The pillars of the economy, housing and cars are in shambles and unemployment has gone up more than was anticipated last year by the Administration and by the KEDI. Certainly, that is not all the fault of the attempts by the White House to curtail price hikes, but the role played was hardly minute. The other cost that has been high and connects with the first is the cost of money. The interest rate has remained at too high a level for too long.

The public, business in particular, was not persuaded that the policies would result in improved economic conditions after the successive disappointments with the initial pronouncements that began in late 1980. At that time, the official view from Washington, was that the economy would turn by the latter part of 1981. Then it was changed to further in the future. People lost confidence in the estimates of when better times would at least start. This had its toll on business plans for expansion, to mention one area. It would have been better if the Administration had been more realistic from the start and not gotten some hopes up only to be somewhat dashed a bit later.

Still, a program that is effective in fighting inflation is commendable and has to be supported. KEDI shares the view of Louis Rukeyser that part of the price has been the endurance of high interest rates. The price of bringing the rates down would be a dedication to continue to pay some price to keep prices from accelerating again.

High interest rates have been one of the tools used to combat inflation and to assist in building the foundation for a more solid economic base.

The problem is rates can get too high and for too long to accomplish those two goals. Another problem is balancing the monetary policy, interest rates, and fiscal policy in a way that does not do excessive damage to the economy while keeping the rate of price gains at some tolerable level.

It is the evaluation of KEDI that:

A. interest rates have to gradually decline,

B. the Federal Reserve should allow more rapid monetary growth--6 per cent this year and 7 per cent in 1983,

C. the budgetary deficits of around $100 billion in fiscal 1983, $84 billion in the next year, and 60-70 billion in 1985 will not prevent interest rates from declining.

In sum, the intentions of the Administration were and are good. One major goal has been reached, but the slump connected to cutting price hikes has become longer and deeper than need be. This is attributed, in part, to the overly confident forecasts made by the Administration and its affect on the mood and view of business in particular. Pessimistic attitudes now will not help end the slump.

1.02 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, the changes concern the updates of Assumptions No.1.

1. In 1986, all U.S. demand for oil should be met. In 1982, it is expected the weighted price of oil will be $32; in 1983 it will go up to $33 per barrel; in 1984, to $36 per barrel; in 1985, to $39 per

ASSUMPTIONS

barrel; and in 1986, to $40 per barrel.

2. It is expected, that the Mid East crisis will continue throughout this year, and more normal economic conditions, including a significant resumption in the area of oil exports, will take place not earlier than in 1984.

3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1982-1986 period. In 1982, some relaxation, and in 1983-1984, tightening is assumed.

4. Increases in state and local taxation in 1982-1986 are anticipated.

5. Our foreign trade with China will gain a substantial momentum in 1982 and following years.

6. In 1982 and 1983 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1984. The years 1984 and 1985 should bring U.S. record crops.

7. It is projected here that the average rates of growth in 1982-1986 in the major industrial countries be as follows for real GNP: West Germany 3.2%, Japan 3.5%, Italy 2.2%, Great Britain 2.1%, France 2.3%.

8. No drastic changes in existing international relationships are assumed in this forecast.

The May 1982 KEDI forecast is highlighted in Table 1.0 KEDI FORECAST HIGHLIGHTS on page No.5.

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE

MONTH: May 1,1982

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1981	1982	1985	1986
Gross National Product	bil. const. 72 $	1510.3	1494.5	1713.8	1785.2
Index of Industrial Production	1967 =100	151.0	145.1	166.4	176.7
Capacity Utilization	%	78.5	71.6	79.9	81.2
Unemployment Rate	%	7.6	8.8	7.2	6.9
Private Housing Starts	mil. units	1.084	1.098	1.713	1.789
Car Sales	mil. units	8.6	7.9	9.4	10.1
Implicit GNP Price Deflator	1972 =100	193.7	205.9	238.0	256.8
Consumer Price Index	1967 =100	272.4	288.8	354.9	379.4
Producer Price Index	1967 =100	282.7	303.4	365.7	381.7
Federal Deficit	bil. $	-62.4	-99.6	-63.5	-42.8
Personal Income	bil. $	2404.1	2544.3	3095.4	3398.7
Prime Rate	%	18.87	15.86	14.59	12.71
Mortgage Rate	%	16.52	16.80	13.98	12.86
Currency plus Demand Deposits	bil. $	364.5	379.5	446.9	478.6
Commercial and Industrial Loans	bil. $	360.8	390.9	418.6	444.6

1.10 REAL GROWTH
(Table 1.10 on page 8)

Both the short-term and long-term forecasts remain essentially unchanged in this issue. Growth is still seen as mild in the latter part of this year but accelerating a bit next. It is now seen as just a "tad" more mild than had been previously projected here.

Short-term

The projection of slow recovery starting in the second part of this year is based on three factors: the mid-year tax cuts, consumer spending, and declines in interest rates.

1. Purchasing power will be injected from the 10 per cent tax cut and the rise in social security benefits. The tax reductions will bring roughly $35 billion more to consumers and gains in social security benefits will add $12 billion to pockets and purses.
2. KEDI calculates that both measures will contribute an additional 3.5 per cent to consumer spending during the latter part of this year and an increment of 3 per cent in the first part of 1983. The forecast shows the slow recovery will benefit from these measures. It will be a consumer-lead recovery. This Institute agrees with Murray Weidenbaum of the Council of Economic Advisers that consumers will be in the front helping create the little ripples leading to more growth. KEDI does not expect a significant rebound in housing and auto sales. Calculations show that the tax cuts, even though large in historical terms, will not really affect car and home sales. Because of high interest rates and the price levels, these items remain out of reach of many citizens. Most will continue to make-do with the apartment or small home and the aging auto

REAL GROWTH

(rusting relics in the states that assaulted road ice and snow with salt).

The primary gains from the cuts and S.S. increases will be in the purchases of apparel, textiles, appliances, food and other goods not representing major investments.

3. It is the assumption here that the Federal Reserve will gradually relax its tight monetary and credit policies. Drastic declines are not expected, but persistent trends of small decreases during the rest of this year and at the start of 1983 are anticipated. Still, even with some decline, the interest rates are seen here as being relatively high. That will prevent any dramatic increase in housing and auto sales. The rebound will be mild and slow.

The inflation rate will remain low. The stabilization of energy prices, moderate increases in the prices of houses and other housing items will keep the overall rate of price gains on the low side. That will not contribute to any excessive corporate profits. Hence, there will not be any significant rise in business spending.

Long-term

This year will finish up with the last quarter being the best of the lot as compared to the other quarters. The momentum beginning in the second half of this year will edge forward in 1983 and move a bit faster in 1984. After that, growth is seen as slowing. Inflation is seen here as "low" this year and gaining again slowly after that time. Joblessness is projected as declining steadily. It is projected as averaging 7.8 per cent in 1983 and moving down toward 6.9 per cent during 1986. As compared

TABLE 1.10 REAL GROWTH
(Unless otherwise stated, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1	2	3	4		
Gross national product, 1972 $	bil. 1972 $	1510.3	1483.8	1486.9	1492.5	1514.9	1494.5	-1.0
Index of industrial product.	1967=100	151.0	141.5	142.2	146.7	150.2	145.1	-3.9
Unemployment rate	%	7.6	8.8	9.3	8.8	8.4	8.8	15.7
Capacity utilization rate	%	78.5.	71.5	71.0	71.3	72.5	71.6	-8.8
Private housing starts	mil. units	1.084	.919	1.077	1.193	1.202	1.098	1.3
Car sales	mil.	8.6	8.3	7.6	7.4	8.2	7.9	-8.1

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Gross national product, 1972 $	bil. 1972 $	1494.5	1532.1	1547.2	1565.0	1587.2	1557.8	4.2
Index of industrial product.	1967=100	145.1	154.3	158.1	162.3	164.7	159.9	10.2
Unemployment rate	%	8.8	8.2	7.9	7.6	7.6	7.8	-11.2
Capacity utilization rate	%	71.6	73.1	75.8	78.3	76.9	75.5	5.4
Private housing starts	mil. units	1.098	1.223	1.530	1.630	1.645	1.507	37.2
Car sales	mil.	7.9	8.4	7.9	8.4	9.0	8.5	7.6

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Gross national product, 1972 $	bil. 1972 $	1557.8	1601.5	1621.7	1640.5	1665.7	1632.4	4.8
Index of industrial product.	1967=100	159.9	165.2	166.1	166.4	167.8	166.4	4.1
Unemployment rate	%	7.8	8.2	7.9	7.7	7.6	7.2	-7.8
Capacity utilization rate	%	75.5	78.3	80.1	80.4	80.9	79.9	5.8
Private housing starts	mil. units	1.507	1.526	1.678	1.743	1.707	1.663	10.4
Car sales	mil.	8.5	9.3	8.8	9.2	9.6	9.2	8.2

* Historical Data (1) % change over previous year

REAL GROWTH

to the Administration, unemployment here is seen as lower through 1984 and the following years.

Not-so-good News

1. KEDI does not agree with Murray Weidenbaum's interpretation of late March that the economy touched bottom and will begin to show gains. Although close, calculations here show that the bottom is not quite reached as yet but will be in the next month or so.

2. GNP contracted during the first quarter at a 3.9 per cent annual rate. At least that was less than the 4.5 per cent shrinkage of the fourth quarter of 1981.

3. A monthly survey of purchasing managers pointed to the economy still registering negatively in March. The composite index of the managers was down from the February level.

4. Retail sales were down 0.5 per cent in March after showing after showing an increase in February. A decline in the sales of nondurable goods offset the gain in durable items sold.

5. At the end of March, F. W. Dodge reported that the value of new construction contracts awarded in February dropped an adjusted 16 per cent from the January level. The first two months of this year were 11 per cent below the year-earlier total.

Better News

1. New orders by manufacturers of durable goods rose in February. In March, they posted another gain.

2. Housing starts gained 2.5 per cent in March. That was the fifth consecutive month of gains.

REAL GROWTH

3. Although nothing to get excited about, new car sales were not down again in mid-April. There was a 5.8 per cent rise in that 10-day period as compared to the year-ago sales. Of course, it would not take much to show improvement over that lousy sales period.

4. The Commerce Department reported that consumer spending did go up an inflation-adjusted 4 per cent in the first quarter of this year. Such spending had shown a downward move of 2.2 per cent in the last quarter of 1981.

1.20 PRICES

(Table 1.20 on page 12)

This an area where downward revision is pleasant. The main reasons for the change in the forecast here of the CPI, PPI, and price deflators center on the following:

1. energy prices--now seen as stable for the next 12 months
2. housing prices--revised downwards in terms of the rate of gain
3. prices of grain--projection of prices changed due to larger than anticipated crops and inventories

KEDI now expects inflation to show a 6.0 per cent rise this year as compared to 1981. The forecast for the next two years is the following:

1983: 6.4 per cent gain in the CPI

1984: 7.3 per cent increase in the CPI

This Institute is not as optimistic as Michael Evans of Evans Economics. He sees inflation in the 5 per cent range through next year.

Donald Ratajvzak of the forecasting project at Georgia State sees inflationat an annual rate of 6-7 per cent by fall with a year average of

PRICES

6.1 per cent. KEDI is in general agreement here.

1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 13)

The forecast of the unemployment rate remains roughly the same with a slight fractional change. KEDI expects the rate to peak during the current quarter at 9.28 per cent. This Institute does not agree with Robert Gough of Data Resources that joblessness will go up to 9.5 per cent in the fall and not drop below 8 per cent until 1984.

The calculations here of unemployment averages for three quarters of this year are:

1982, 2nd quarter	9.28 per cent
1982, 3rd quarter	8.83 per cent
1982, 4th quarter	8.39 per cent

The average for the year is forecast at 8.82 per cent. This is slightly lower than the Administration forecast of 8.9 per cent. It is also lower than projections of majority of forecasters. For example, the 1982 average unemployment rate expected by Georgia State University is 9.2 per cent; Wharton Econometrics also expect 9.2 per cent; UCLA projects 9.3 per cent rate, Data Resources 9.1 per cent, and Merrill Lynch 9.0 per cent.

For the year 1983, KEDI expects more significant declines in unemployment mainly in automobile and related industries, construction and housing industries, chemicals, primary metals, and appliances industries. However, major improvement in the employment outlook is expected not earlier than in 1984 and following years.

TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1	2	3	4		
Consumer price index, NSA	1967=100	272.4	283.0	285.3	290.1	296.8	288.8	6.0
Producer price index **	1967=100	269.7	277.2	279.0	284.6	289.9	282.7	4.8
Implicit GNP price deflator	1972=100	193.7	201.9	204.7	207.1	209.9	205.9	6.2
Gross national product	bil.$	2925.5	2995.1	3044.0	3091.6	3179.2	3077.4	5.6
Personal consump. expend.	bil.$	1857.8	1950.7	1962.3	1984.2	2010.8	1977.0	6.4
Gross private dom. investment	bil.$	450.5	392.6	455.3	489.8	510.7	462.1	2.6

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Consumer price index, NSA	1967=100	288.8	301.2	304.5	309.6	313.8	307.3	6.4
Producer price index **	1967=100	282.7	295.5	302.5	306.2	309.4	303.4	7.3
Implicit GNP price deflator	1972=100	205.9	214.0	217.3	221.1	225.7	219.5	6.6
Gross national product	bil.$	3077.4	3277.9	3361.3	3460.1	3582.9	3420.6	11.1
Personal consump. expend.	bil.$	1977.0	2074.6	2152.7	2246.5	2304.3	2194.5	11.0
Gross private dom. investment	bil.$	462.1	512.4	516.3	523.8	527.8	520.1	12.6

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Consumer price index, NSA	1967=100	307.3	319.1	325.6	333.8	340.8	329.8	7.3
Producer price index**	1967=100	303.4	317.8	325.8	334.6	345.9	331.0	9.1
Implicit GNP price deflator	1972=100	219.5	230.2	235.3	240.3	246.2	238.0	8.4
Gross national product	bil.$	3420.6	3686.0	3815.4	3942.4	4101.0	3886.2	13.6
Personal consump. expend.	bil.$	2194.5	2374.7	2428.9	2498.5	2588.2	2472.5	12.7
Gross private dom. investment	bil.$	520.1	546.3	581.7	612.8	634.3	593.8	14.2

* Historical Data **Finished goods (1) % change over previous year

TABLE 1.30 EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1	2	3	4		
Population	mil.	225.9	228.0	229.2	230.4	231.4	229.6	1.6
Civilian labor force	mil.	108.7	109.2	110.3	110.9	111.8	110.6	1.7
Employment	mil.	100.5	99.6	100.1	101.1	102.4	100.8	3.0
Agriculture	mil.	3.4	3.4	3.4	3.3	3.3	3.4	.0
Non agriculture	mil.	97.1	96.2	96.7	97.8	99.1	97.4	.3
Unemployment Rate	%	7.62	8.77	9.28	8.83	8.39	8.82	15.7

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Population	mil.	229.6	231.5	232.2	232.9	233.4	232.5	1.3
Civilian labor force	mil.	110.6	112.6	113.8	114.9	115.8	114.3	3.3
Employment	mil.	100.8	103.4	104.8	106.1	107.1	105.3	4.5
Agriculture	mil.	3.4	3.3	3.4	3.3	3.4	3.4	.0
Non agriculture	mil.	97.4	100.1	101.4	102.8	103.7	101.9	4.6
Unemployment Rate	%	8.82	8.19	7.92	7.67	7.55	7.83	-11.2

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Population	mil.	232.5	234.5	235.2	236.0	236.9	235.7	1.4
Civilian labor force	mil.	114.3	117.0	117.9	118.8	120.1	118.5	3.7
Employment	mil.	105.3	108.4	109.3	110.3	111.6	109.9	4.4
Agriculture	mil.	3.4	3.3	3.4	3.4	3.4	3.4	.0
Non agriculture	mil.	101.9	105.1	105.9	107.9	108.2	106.5	4.5
Unemployment Rate	%	7.83	7.34	7.29	7.16	7.09	7.22	-7.8

*** Historical Data** (1) % change over previous year

1.41 HOUSING
(Table 1.41 on page 15)

The forecast here remains unchanged. There was some good news in housing. In March, housing starts were up by 2.5 per cent for the fifth consecutive month of gains. The March adjusted annual rate was 974,000--still below more normal rates but an improvement nevertheless. The March rate was 28 per cent lower than the year-ago level.

Another good sign was the rise in building permits. They gained an adjusted 9.4 per cent.

The median sales price of a new house contracted ever-so slightly in February. The price was $66,500 -- just $500 less than in January and only $300 above the year-earlier price.

KEDI agrees with Mr. Sumichrast, chief economist at the National Association of Home Builders, that the steady gains in permits point to starts reaching toward the one-million-unit level in a few months. That would signal that the worst of the slump in housing is finally over.

The home sales news is not as good. The first two months of this year showed declines here. February sales were down an adjusted 11.8 per cent from the prior month. There is a 10.3 month supply on hand as measured by that month's pace. This Institute agrees with Mr. Howard of the Federal National Mortgage Association that such sales levels are not good news. However, there are general indications that the pace picked up in March and April. The forecast by KEDI for the long-term shows that housing starts will exhibit a more robust recovery in 1984 and beyond. The 1984-1986 years show a relatively good performance as compared to 1982 and

TABLE 1.41 HOUSING

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1	2	3	4		
Single-family housing starts	mil.	.706	.586	.597	.675	.672	.632	-10.5
Multifamily housing starts	mil.	.379	.333	.480	.518	.530	.465	22.7
Mobile home shipments	mil.	.241	.226	.258	.281	.296	.265	10.0
Permits authorized	mil.	.969	.832	.871	.962	1.057	.931	-3.9
1-family unit** price, new	tho.	83.1	80.6	81.2	81.7	82.0	81.4	-2.0
1-family unit** price, existing	tho.	78.0	80.4	80.9	81.3	81.7	81.1	4.0

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Single-family housing starts	mil.	.632	.711	.892	.904	.911	.854	35.1
Multifamily housing starts	mil.	.465	.512	.638	.726	.734	.652	40.2
Mobile home shipments	mil.	.265	.319	.351	.387	.364	.355	40.0
Permits authorized	mil.	.931	1.173	1.396	1.541	1.702	1.453	56.1
1-family unit** price, new	tho.	81.4	82.5	83.4	84.6	85.1	84.0	3.2
1-family unit** price, existing	tho.	81.1	82.3	82.9	83.5	84.6	83.3	2.7

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Single-family housing starts	mil.	.854	.806	.925	.997	.956	.921	7.8
Multifamily housing starts	mil.	.652	.720	.753	.746	.751	.742	13.8
Mobile home shipments	mil.	.355	.342	.348	.367	.372	.357	.6
Permits authorized	mil.	1.453	1.623	1.716	1.804	1.796	1.735	19.4
1-family unit** price, new	tho.	84.0	85.8	87.0	88.2	88.9	87.5	4.2
1-family unit** price, existing	tho.	83.3	85.2	85.7	86.1	87.0	87.0	3.2

* Historical Data **Not seasonally adjusted (1) % change over previous year

certainly to 1981. Still, the two million unit record of 1978 is not really approached.

1.42 AUTOMOBILES

(Table 1.42 on page 17)

The forecast data for 1982 and 1983 has been revised downward when compared with the April projection. KEDI is more pessimistic about autos made in this country and total sales. The projection here is that 7.9 million cars will be sold during this year. That is down 0.7 million from the 8.6 level of 1981. For the next few years, car sales will move ahead but not approach the levels of 10-11 million experienced in more normal times. Total sales of automobiles are forecast at 8.5 million in 1983 and 9.3 million in 1984.

Recent developments are in line with projections here. March domestic sales were off by 22 per cent from the year-earlier total--despite another set of price cutting campaigns. In the first 10 days of April auto sales were off 18.2 per cent, and in the middle 10 days of April sales were up by 5.8 per cent from mid-April, 1981. This Institute agrees that the slight gain is no sign that a general upturn is beginning.

A Wall Street Journal survey of leading importers led to the conclusion that March import sales were down to just below 200,000 from the year-earlier level of 241,200. The decline is attributed to import restrictions on Japanese autos and less demand for small cars.

Car makers have revised their second quarter 1982 plans. Output in this period will now be cut 21 per cent. The tentative output for the third

TABLE 1.42 AUTOMOBILES
(Unless otherwise stated, quarterly data are
seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1	2	3	4		
Passenger cars:								
Total sales	mil.	8.6	8.3	7.6	7.4	8.2	7.9	-8.1
Domestic	mil.	6.3	6.0	5.1	5.5	6.0	5.7	-9.5
Imported	mil.	2.3	2.3	2.3	2.1	2.2	2.2	-4.4
Dealers inventories**	mil.	1.5	1.1	.9	1.0	.9	1.0	-33.3
Factory shipments	mil.	6.3	4.1	4.3	5.4	6.8	5.2	-17.5
Light-duty truck sales	mil.	1.6	1.7	1.6	1.8	1.9	1.8	12.5

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Passenger cars:								
Total sales	mil.	7.9	8.4	7.9	8.4	9.0	8.5	7.6
Domestic	mil.	5.7	6.3	5.9	6.2	6.7	6.3	10.5
Imported	mil.	2.2	2.1	2.0	2.2	2.3	2.2	.0
Dealers inventories**	mil.	1.0	1.0	1.0	1.4	1.2	1.2	20.0
Factory shipments	mil.	5.2	6.2	6.4	5.9	7.4	6.5	25.0
Light-duty truck sales	mil.	1.8	1.7	1.9	2.1	1.9	1.9	5.6

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Passenger cars:								
Total sales	mil.	8.5	9.3	8.8	9.2	9.6	9.2	8.2
Domestic	mil.	6.3	7.0	6.8	7.2	7.5	7.1	12.7
Imported	mil.	2.2	2.3	2.0	2.0	2.1	2.1	-4.5
Dealers inventories**	mil.	1.2	1.4	1.2	1.6	1.7	1.5	25.0
Factory shipments	mil.	6.5	7.3	7.5	7.1	7.8	7.4	13.8
Light-duty truck sales	mil.	1.9	1.8	2.1	2.2	2.1	2.1	10.5

* Historical Data **Not seasonally adjusted (1) % change over previous year

of this year is still about the same level as in 1981.

KEDI is not as optimistic as Ford's chairman, Phillip Caldwell, in his prediction of record domestic car sales in the next few years. As. Mr. Caldwell sees it, there will be record levels of car sales by 1985 as the economy recovers. The forecast by KEDI for that year is still well below any record.

1.50 GOVERNMENT BUDGETS

(Table 1.50 on page 20)

Federal Budget

The following assumptions are made for the fiscal 1983 budget starting October 1, 1982:

1. The federal income tax cut, effective July 1, 1983, will be preserved.
2. As maintained here previously, $30 billion in new taxes will be approved. (What the government giveth, the government taketh away.)
3. Roughly $60 billion in budget cuts in the 1983 budget will be approved.

That is in line with Senator Howard Baker who cited various measures needed to cut the fiscal 1983 deficit from the projection of $180 billion to under $100 billion. Senator Baker mentioned budget cuts of $5 billion in defense and $50 billion in other areas plus some revenue-raising measures.

KEDI has slightly increased the projection of the budget deficit for this current fiscal year from $98.5 billion to $102 billion. That is more optimistic than, for instance, Wharton Econometric Forecasting Associates. Their forecast includes a giant black cloud (or should it be red) of $132.7 billion this year and $138.1 in '84.

For, 1984, fiscal, the projection here roughly corresponds with that of the Administration: $93.8 billion as compared with KEDI's $95.3.

State and Local Budgets

State and local income tax figures have been raised in the forecast here. It is now anticipated that more additional income taxation will be enacted on the state and local level.

1.60 INCOME

(Table 1.60 on page 22)

The forecast data for income and components has been slightly reduced due to the slight overall downward revision of the projected performance of the U.S. economy in the 1982-83 period.

KEDI maintains the forecast that despite the income tax cuts in 1982 and 1983, real per capita income will not increase significantly during this year and next year. Income will be essentially flat. In the 1984-1986 years there will be some real gains, but still rather small. In KEDI's forecast, the increases in real per capita income are the following: 1984/83: 1.4 per cent, 1985/84: 2.3 per cent, and 1986/85: 2.1 per cent.

The forecast of corporate profits has been somewhat changed. Instead of a decline in after-tax profits between 1981 and 1982 of 2.8 per cent,

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1	2	3	4		
Federal govt.:								
Income taxes	bil. $	296.2	298.8	301.2	275.4	280.2	288.9	-2.5
Corporate prof. tax accruals	bil. $	66.0	54.7	53.6	55.2	61.3	56.2	-14.8
Surplus/deficit	bil. $	-62.4	-103.4	-97.5	-110.3	-87.2	-99.6	59.6
State and local governments:								
Income taxes	bil. $	91.9	98.6	101.3	104.5	110.8	103.8	12.9
Corporate prof. tax accruals	bil. $	11.7	11.3	11.8	12.1	12.9	12.0	2.6
Surplus/deficit	bil. $	36.7	34.9	34.7	33.6	32.5	33.9	-7.6

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Federal govt.:								
Income taxes	bil. $	288.9	290.4	300.5	272.1	285.7	287.2	-.6
Corporate prof. tax accruals	bil. $	56.2	66.2	73.1	78.4	84.8	75.6	34.5
Surplus/deficit	bil. $	-99.6	-81.5	-79.4	-96.3	-91.5	-87.2	-12.6
State and local governments:								
Income taxes	bil. $	103.8	114.3	116.2	120.7	123.4	116.2	11.9
Corporate prof. tax accruals	bil. $	12.0	13.6	14.7	16.3	18.7	15.8	31.7
Surplus/deficit	bil. $	33.9	33.1	34.2	34.9	35.8	34.5	1.8

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Federal govt.:								
Income taxes	bil. $	287.2	300.1	312.3	328.8	341.5	320.7	11.7
Corporate prof. tax accruals	bil. $	7.56	89.5	96.4	103.2	111.8	100.2	32.5
Surplus/deficit	bil. $	-87.2	-87.1	-80.2	-96.7	-87.5	-87.9	.8
State and local governments:								
Income taxes	bil. $	116.2	125.6	128.7	131.5	133.8	129.9	11.8
Corporate prof. tax accruals	bil. $	15.8	19.5	21.3	23.8	24.6	22.3	41.1
Surplus/deficit	bil. $	34.5	37.4	38.6	40.1	42.3	39.6	14.8

*** Historical Data** (1) % change over previous year this is now seen as a -3.7 per cent downward move. The forecast for the 1983 through 1986 years remains essentially the same. Next year, profits, for instance, should show a healthy gain of roughly 18 per cent over the current year.

1.70 MONEY AND CREDIT

(Table 1.70 on page 23)

The forecast for growth in M1 and M2 through 1986 remains the same. Both of these measures of the money supply will behave close to or above the upper target limits, respectively, set at the February Open Market Committee meeting. The targets were 5.5 per cent for M1 and 8 per cent for M2. The forecast is maintained that in the latter part of this year the Fed will loosen monetary and credit policies a bit. They will tighten again in the second part of 1983 and in 1984. The recent surge in M1 of $7.1 billion for the week ending April 7 is considered a technical adjustment rather then any renewed indication that further tightening will take place.

The prediction for commercial and industrial loans and consumer credit is still the same. A rebound in mortgage loans is not expected before 1984. Throughout 1983, Savings and Loan Associations mortgages will increase by approximately 4.3 per cent, and in 1984 by approximately 5.5 per cent. Most mortgages will be extended by commercial banks in these years. More significant rebound in Savings and Loan Associations' mortgage lending is expected not earlier than in 1985 and following years.

TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1	2	3	4		
Personal income	bil. $	2404.1	2512.7	2526.7	2552.3	2585.7	2544.3	5.8
Personal disposable income	bil. $	2016.0	2115.3	2124.2	2172.4	2194.5	2151.7	6.7
Compensation of employees	bil. $	1771.6	1844.9	1861.6	1885.9	1930.5	1880.7	6.2
Corporate after tax profits	bil. $	155.5	141.3	142.7	151.6	163.4	149.8	-3.7
Personal saving	bil. $	107.6	112.0	111.8	128.4	125.3	119.4	9.7
Average weekly earnings	$	316.8	320.5	325.4	334.2	340.7	330.2	4.2

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Personal income	bil. $	2544.3	2629.3	2709.7	2780.6	2845.3	2770.4	8.9
Personal disposable income	bil. $	2151.7	2224.6	2293.0	2387.8	2436.2	2335.4	8.5
Compensation of employees	bil. $	1880.7	1979.1	2024.5	2052.1	2075.3	2032.7	8.1
Corporate after tax profits	bil. $	149.8	172.5	174.7	177.8	181.2	176.6	17.8
Personal saving	bil. $	119.4	123.1	120.6	136.5	138.1	129.6	8.5
Average weekly earnings	$	330.2	345.0	351.5	360.0	363.7	355.1	7.5

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Personal income	bil. $	2770.4	2923.5	3022.4	3105.8	3195.4	3061.8	10.5
Personal disposable income	bil. $	2335.4	2497.6	2581.4	2645.5	2720.1	2611.2	11.8
Compensation of employees	bil. $	2032.7	2128.9	2195.8	2269.8	2323.5	2229.5	9.7
Corporate after tax profits	bil. $	176.6	184.6	187.5	192.6	197.4	190.5	7.8
Personal saving	bil. $	129.6	132.4	130.3	128.9	129.1	130.2	.5
Average weekly earnings	$	355.1	371.2	378.2	384.5	388.4	380.6	7.2

* Historical Data (1) % change over previous year

TABLE 1.70 MONEY AND CREDIT

(Data for "Currency and demand deposits","Time deposits, adjusted,M2", and "Large denomination time deposits" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1981*	1982				1982	% (1)
			1	2	3	4		
Currency and demand deposits	bil. $	364.5	371.1	376.5	382.6	387.7	379.5	4.1
Time deposits, adjusted, M2	bil. $	1761.0	1862.4	1882.6	1904.5	1923.6	1893.2	7.5
Consumer instal. credit	bil. $	333.4	335.1	339.2	349.7	356.7	356.7	7.0
Commerc.&indus. loans at banks	bil. $	360.8	367.9	373.6	384.5	390.9	390.9	8.3
Large denomination time dep.	bil. $	305.5	314.6	317.7	329.6	330.8	330.8	8.3
Mortgages at S & L Assns.	bil. $	517.6	519.7	522.9	527.3	534.8	534.8	3.3

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Currency and demand deposits	bil. $	379.5	385.6	392.7	398.4	406.7	395.8	4.3
Time deposits, adjusted, M2	bil. $	1893.2	1944.7	1997.3	2050.6	2102.6	2023.8	6.9
Consumer instal. credit	bil. $	356.7	367.2	371.0	380.5	388.7	388.7	9.0
Commerc.&indus. loans at banks	bil. $	390.9	398.5	404.8	416.3	420.5	420.5	7.8
Large denomination time dep.	bil. $	330.8	337.2	344.6	351.7	359.6	359.6	8.8
Mortgages at S & L Assns.	bil. $	534.8	539.6	546.2	552.8	557.9	557.9	4.3

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Currency and demand deposits	bil. $	395.8	409.7	414.1	419.6	424.1	416.9	5.3
Time deposits, adjusted, M2	bil. $	2023.7	2125.3	2147.6	2185.2	2206.4	2166.1	7.0
Consumer instal. credit	bil. $	388.7	392.6	395.4	398.9	402.5	402.5	3.6
Commerc.&indus. loans at banks	bil. $	420.5	426.8	437.5	444.3	448.7	448.7	6.7
Large denomination time dep.	bil. $	359.6	367.8	378.9	385.4	389.2	389.2	8.2
Mortgages at S & L Assns.	bil. $	557.9	565.2	574.7	580.6	588.5	588.5	5.5

* Historical Data (1) % change over previous year

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 25)

The general forecast by this Institute for interest rates and yields remains essentially unchanged. Interest rates will decline regularly in small increments during this year and next. In 1984, there will be some increases but they will be temporary. It will not be until 1985 that really significant relief will be achieved. KEDI is in accord with Wharton Econometrics that the next two and half years at least will not lead to great relief from generally high interest rate levels. The small declines projected this year and next still leave the rates at levels viewed as high over the long-term.

The forecast of the stock market shows improvements during this year and the first half of 1983. KEDI shares the view of many analysts that the market is bottoming out from its slide from the 1,000 Dow level of last June. The factors that will contribute mostly to the improved performance of the market, in the view of this Institute, are as follows: the slow, steady decline in interest rates, improved performance of the economy in the latter part of this year and next year, and the rebound in some sectors of the economy, namely, textile, appliances, food, chemicals, plastics, and paper, and continuous good performance of defense industries, coal mining, and energy industries.

TABLE 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES
(Quarterly averages of monthly figures)

Indicator	Unit	1981*	1982				1982	% (1)
			1	2	3	4		
Treasury bills (3 mo) yield	%	14.03	13.24	12.65	12.13	11.98	12.50	-10.1
Prime rate	%	18.87	16.67	16.20	15.64	14.98	15.86	-15.9
Conventional mortgages rate	%	16.52	17.28	17.19	16.84	15.90	16.80	1.7
Aaa corporate bonds rate	%	14.17	15.24	14.32	14.01	13.67	14.29	.8
20 years Govt. bonds yield	%	13.72	14.06	13.78	13.65	13.02	13.63	-.7
Standard & Poor's 500 avg.	1941-43=100	128.05	114.26	117.51	120.43	123.85	119.01	-7.1

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Treasury bills (3 mo) yield	%	12.50	12.14	12.47	12.85	13.16	12.66	1.3
Prime rate	%	15.86	14.89	14.46	14.68	14.78	14.70	-7.4
Conventional mortgages rate	%	16.80	15.63	15.27	15.06	15.12	15.27	-9.9
Aaa corporate bonds rate	%	14.29	13.41	13.56	13.72	13.65	13.55	-5.2
20 years Govt. bonds yield	%	13.63	13.14	13.26	13.65	13.87	13.48	-1.9
Standard & Poor's 500 avg.	1941-43=100	119.01	126.52	124.13	120.17	118.56	122.35	2.8

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Treasury bills (3 mo) yield	%	12.66	13.47	13.21	12.89	12.42	13.00	2.7
Prime rate	%	14.70	15.26	15.07	14.54	14.03	14.73	.2
Conventional mortgages rate	%	15.27	15.24	15.02	14.81	14.24	14.83	-2.9
Aaa corporate bonds rate	%	13.55	13.37	13.06	12.78	12.21	12.88	-4.9
20 years Govt. bonds yield	%	13.48	13.52	13.07	13.02	12.72	13.08	-3.0
Standard & Poor's 500 avg.	1941-43=100	122.35	120.43	122.56	124.61	126.53	123.53	.9

* Historical Data

(1) % change over previous year

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the Gross Domestic Private Investment for the year 1981 has been selected for comparison. The actual figure has been released by the U.S. Department of Commerce in March this year. Forecast data are from the Business Forecasts 1981, Federal Reserve Bank of Richmond, Richmond, Virginia, February 1981. Some forecasters were unable to catch the December 1980 revision of the Income and Product data, and their forecasts may deviate because of this reason. The following table shows the predictions of forecasters and deviations of forecast data.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

(Gross Private Domestic Investment for the year 1981.Billions $)

Actual figure: 450.5

Forecaster	Date of Forecast	Forecast	Page of Business Forecasts 1981	% of Accuracy
National Securities and Research Corporation	12/80	406.0	10	-9.9
U.S.Trust Company of New York	12/80	407.8	12	-9.5
Calvin A.Myers, The Merchant National Bank of Aurora	5/12/80	408.0	12	-9.4
United Business Service	8/12/80	441.0	14	-2.1
Walter D. Fakler, University of Chicago	8/12/80	423.0	14	-6.1
Robert J. Genetski, Harris Trust and Saving Bank	19/12/80	409.5	16	-9.1
Georgia State University	11/80	414.7	23	-7.9
The First National Bank of Chicago	8/11/80	382.0	24	-15.2
Manufacturers Hanover Trust	12/11/80	388.7	25	-13.7
UCLA	12/80	415.8	27	-7.7
Bankers Trust Company	10/12/80	396.5	30	-12.0
Standard & Poor's Corporation	11/12/80	421.0	31	-6.5
Data Resources, Inc.	12/28/80	393.9	32	-12.6
KEDI	12/30/80	449.2	33	-.3
Fidelity Bank	12/31/80	416.5	34	-7.5
Morgan Guaranty	6/1/81	430.9	35	-4.4
Chase Econometrics	7/1/81	429.7	36	-4.8
Equitable Life Assurance Society of the United States	9/1/81	429.5	37	-4.7

3.0 HISTORICAL DATA SOURCES

For the reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the historical source. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.), Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly).

Table 3.0 HISTORICAL DATA SOURCES

Table No.	Data Series	Source
1.10 REAL GROWTH	Gross national product, 1972$	SCB, Table 1.2
	Index of industrial production	IIP, page 2
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.20 PRICES AND NOMINAL GNP	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit GNP price deflator	SCB, Table 7.1
	Gross national product	SCB, Table 1.1
	Personal consumption expenditures	SCB, Table 1.1
	Gross private domestic investment	SCB, Table 1.1
1.30 EMPLOYMENT AND LABOR	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employed	SCB, Blue pages
	-Agriculture	SCB, Blue pages
	-Non agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages

(Table 3.00 continues on the following page)

Table 3.0 HISTORICAL DATA SOURCES (Continued)

Table No.	Data Series		Source
1.41 HOUSING	Single-family housing starts		SCB, Blue pages
	Multifamily housing starts		SCB, Blue pages
	Mobile home shipments		SCB, Blue pages
	Permits authorized		SCB, Blue pages
	1-family unit price, new		FRB, Table 2.14
	1-family unit price, existing		FRB, Table 2.14
1.42 AUTOMOBILES	Passenger cars:	Total sales	SCB, Blue pages
		Domestic	SCB, Blue pages
		Imported	SCB, Blue pages
		Dealers inventories	SCB, Blue pages
		Factory shipments	SCB, Blue pages
	Light-duty truck sales		SCB, Blue pages
1.50 FEDERAL AND STATE AND LOCAL BUDGETS	Federal govt.:	Income taxes	SCB, Table 3.2
		Corp.profit tax accr.	SCB, Table 3.2
		Surplus/deficit	SCB, Table 3.2
	State and local governments:	Income taxes	SCB, Table 3.3
		Corp.profit tax accr.	SCB, Table 3.3
		Surplus/deficit	SCB, Table 3.3
1.60 INCOME	Personal income		SCB, Table 2.1
	Personal disposable income		SCB, Table 2.1
	Compensation of employees		SCB, Table 1.11
	Corporate after tax profits		SCB, Table 1.11
	Personal saving		SCB, Table 2.1
	Average weekly earnings		SCB, Blue pages
1.70 MONEY AND CREDIT	Currency and demand deposits		FRB, Table 1.21
	Time deposits, adjusted, M2		FRB, Table 1.21
	Consumer installment credit		FRB, Table 1.56
	Commercial & industrial loans		FRB, Table 1.23
	Large denomination time deposits		FRB, Table 1.21
	Mortgages at S&L Associations		FRB, Table 1.55
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES	Treasury bills (3 mo) yield		FRB, Table 1.10
	Prime rate		FRB, Table 1.33
	Conventional mortgages rate		FRB, Table 1.10
	Aaa corporate bonds rate		FRB, Table 1.35
	20 years Government bonds yield		FRB, Table 1.10
	Standard & Poor's 500 average		FRB, Table 1.36

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KEDI ECONOMIC SURVEY

JUNE 1982 ISSUE

KENT ECONOMIC
AND DEVELOPMENT
INSTITUTE

P.O. Box 641/Kent, Ohio 44240/U.S.A.

Vol. 7, No. 12, June 1, 1982

KEDI ECONOMIC SURVEY

JUNE 1982 ISSUE

President: Vladimir J. Simunek

This updated monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquiries should be directed to: KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, Kent Student Center, KSU Campus, Kent, OH 44242, U.S.A. Kent State University Foundation, Inc., and Kent Economic and Development Institute are not liable for any claim based on deviation of forecast data from actual data. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

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Publication No. 068200724
KEDI June 1, 1982

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KENT ECONOMIC AND
DEVELOPMENT INSTITUTE
June 1, 1982

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1.70 MONEY AND CREDIT 21

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This forecast uses the May, 1982, U.S. Department of Commerce revised National Income and Product data. Also used is the May 1982, Board of Governors of the Federal Reserve System release of the Index of Industrial Production, and the latest available data on prices, employment, industrial, and financial developments.

1.00 OVERVIEW AND ASSUMPTIONS

1.01 OVERVIEW

News from the economic front has been confirming the forecast advocated here since last year: namely, the recovery will start in the second half of the year. It will lack "oomph", but it will be a start that will gradually gain momentum throughout 1983.

Members of the Business Council expressed the view in early May that the economy is pulling out of the recession. That has been anticipated here for many months. Their statements that, due to high interest rates, the recovery could be less energetic than what has occurred after most recessions has been expressed here since last year. However, to be specific, the Business Council's assertion that the recovery had begun in May is a bit early. May is still reflective of a decline and the outlook for June and July is decidedly flat. Beyond that, the upward path begins.

At a joint meeting of the International Monetary Fund and the World Bank, finance ministers pointed to the strenghtening of world economic conditions that were beginning to be visible. That is **a brighter view**. However, KEDI sees the added muscle as being a bit beyond the horizon in terms of the international scene. It won't be until 1983 at the earliest that industrialized nations of the world will be more truely "fit."

INTEREST RATES. It is no surprise to most to say that the edging up from the recession will be made more difficult by the presence of one major obstacle contributing to the roughness of the recovery terrain--interest rates. KEDI maintains its projection that interest rates will gradually decline, but STILL BE on historically high levels.

OVERVIEW

However, there is no need to work up a sweat over this, particularly as concerns the recent news on the projected federal budget deficit which was approved in the Senate at $116 billion. That amount of red ink, overwhelming as it may sound, will not have direct effects on raising the interest rates. Saving sources in other sectors of the economy may serve as an offset. It is such savings and surpluses that contributed to the fact that although the Washington increase in debt has more than doubled since 1980, the prime rate is lower now than it was then.

To repeat and emphasize: INTEREST RATES WILL GRADUALLY DECLINE DESPITE THE HIGH FEDERAL DEFICITS. The experience of the past two years shows CLEARLY THAT THERE IS NOT NECESSARILY A DIRECT RELATIONSHIP BETWEEN FEDERAL DEFICITS AND INTEREST RATES AS INTEREST RATES HAVE BEEN GENERALLY DECLINING WHILE THE DEFICIT HAS BEEN GROWING BY LEAPS AND BOUNDS.

The idea that large deficits will not push up interest rates, and secondly, recovery may begin without substantial declines in them is beginning to get some support in the press. KEDI shakes hand in agreement with Peter Richardson of Irving Trust Co. quoted in The Wall Street Journal of May 17. He also disputed the idea that high deficits mean higher interest rates, and went on to say growth can take place without rapid decline in such rates. The coming tax cuts and the large inventory liquidations that have taken place are providing the framework for increased production. For once, KEDI agrees with Treasury Secretary Donal Regan that there is no identifiable connection between large government deficits, inflation, and high interest rates.

OVERVIEW

KEDI's calculations show the budget compromise recently reached in the Senate, namely the increase in the taxation of businesses to reduce the deficit WILL NOT HELP THE RECOVERY NOR THE U.S. ECONOMY IN THE LONG RUN. The Institute agrees with the view of Milton Friedman expressed in Newsweek (May 31, 1982, page 55). Reagan was correct when he said higher taxes would not mean lower deficits, but would mean slower growth and lower productivity. Agreeing to a tax gain from business as a budget compromise is seen as an error.

1.02 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, the changes concern the updates of Assumption No.1.

1. In 1986, all U.S. demand for oil should be met. In 1982, it is expected the weighted price of oil will be $33; in 1983 it will go up to $34 per barrel; in 1984, to $37 per barrel; in 1985, to $40 per barrel; and in 1986, to $42 per barrel.
2. It is expected, that the Mid East crisis will continue throughout this year, and more normal economic conditions, including a significant resumption in the area of oil exports, will take place not earlier than in 1984.
3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1982-1986 period. In 1982, some relaxation, and in 1983-1984, tightening is assumed.
4. Increases in state and local taxation in 1982-1986 are anticipated.
5. Our foreign trade with China will gain a substantial momentum in 1982 and following years.

ASSUMPTIONS

6. In 1982 and 1983 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1984. The years 1984 and 1985 should bring U.S. record crops.

7. It is projected here that the average rates of growth in 1982-1986 in the major industrial countries will be as follows for real GNP: West Germany 3.2%, Japan 3.5%, Italy 2.2%, Great Britain 2.1%, France 2.3%.

8. No drastic changes in existing international relationships are assumed in this forecast.

The June 1982 KEDI forecast is highlighted in Table 1.0 KEDI FORECAST HIGHLIGHTS on page No. 5..(The Comparison of Accuracy this month covers 1981 GNP.)

1.10 REAL GROWTH

(Table 1.10 on page 7)

The forecast for the growth of the economy remains the same. It is measured by GNP in constant 1972 dollars. Due to the rate of decline in this year's first quarter, the improvement expected in the second half of the year will still not make up for it; hence the negative figure for 1982.

Projected Rates of Growth:

1982	-1.2 %
1983	4.2 %
1984	4.7 %
1985	4.0 %
1986	3.7 %

Recent data confirm the outlook seen here for some time: recovery will not start until the second part of this year. News reflecting the

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE

MONTH: June 1, 1982

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1981	1982	1985	1986
Gross National Product	**bil. const. 72 $**	1510.3	1491.9	1694.2	1756.3
Index of Industrial Production	1967 =100	151.0	143.8	174.3	178.2
Capacity Utilization	%	78.5	71.6	79.9	81.2
Unemployment Rate	%	7.6	8.9	7.2	6.9
Private Housing Starts	mil. units	1.084	1.083	1.723	1.798
Car Sales	mil. units	8.6	8.0	9.3	10.1
Implicit GNP Price Deflator	1972 =100	193.7	205.9	237.6	256.0
Consumer Price Index	1967 =100	272.4	288.8	354.7	382.4
Producer Price Index	1967 =100	282.7	303.4	358.8	390.4
Federal Deficit	bil. $	-62.4	-130.5	-65.1	-40.6
Personal Income	bil. $	2404.1	2539.3	3276.3	3508.9
Prime Rate	%	18.87	15.75	13.02	12.76
Mortgage Rate	%	16.52	16.80	13.75	12.53
Currency plus Demand Deposits	bil. $	430.0	453.7	542.3	577.0
Commercial and Industrial Loans	bil. $	360.7	388.5	433.4	468.1

REAL GROWTH

continuation of the recession during the second quarter is included here.

1. New factory orders for durable goods were down by 3.9 per cent in April from the adjusted March level. Such orders had gained a revised 0.6 per cent in March. An increase in new orders is one sign that a recovery is beginning. In this case it has been a little up, then down more. What is seen points to essential flatness this quarter.

2. Retail sales were up, but the gain was not large and was mostly due to a temporary increase in car sales. Retail sales were 1.4 per cent higher in April than in March. If autos were excluded, such sales would show a gain of just 0.5 per cent. The sales figures are not inflation adjusted.

3. The Index of Industrial Production showed a decline in April. The downward movement in business equipment and the decline in materials indicate that the turnaround has not yet started. The conclusion here is that more significant increases in the IIP are not expected until at least 2-3 more months have passed.

KEDI agrees with Jerry Jasinowski of the National Association of Manufacturers that the recovery, especially of heavy manufacturers, will not come quickly and certainly not in the second quarter. The assessment of Allen Gutheim of the Wharton Econometric Forecasting Associates that industrial production will be static or up very slightly in the next few months is shared here.

4. Foreign Trade. Again, it does not indicate that the recovery is here. There was a sharp curtailing of the U.S. merchandise trade deficit in the first quarter. It diminished to roughly $6 billion from

TABLE 1.10 REAL GROWTH
(Unless otherwise stated, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	%
			1	2	3	4		(1)
Gross national product,1972 $	bil. 1972 $	1510.3	1482.2	1484.6	1490.1	1510.5	1491.9	-1.2
Index of industrial product.	1967=100	151.0	141.6	141.3	145.0	147.1	143.8	-4.8
Unemployment rate	%	7.6	8.8	9.5	8.9	8.5	8.9	17.1
Capacity utilization rate	%	78.5	71.5	71.1	71.3	72.4	71.6	8.8
Private housing starts	mil. units	1.084	.919	1.058	1.178	1.177	1.083	.0
Car sales	mil.	8.6	8.3	7.8	7.9	8.0	8.0	-7.0

Indicator	Unit	1982	1983				1983	%
			1	2	3	4		(1)
Gross national product,1972 $	bil. 1972 $	1491.9	1529.3	1543.1	1562.4	1583.1	1554.4	4.2
Index of industrial product.	1967=100	143.8	151.2	155.6	159.7	162.3	157.2	9.3
Unemployment rate	%	8.9	8.2	8.0	7.7	7.6	7.9	-11.2
Capacity utilization rate	%	71.6	73.0	75.6	76.2	76.9	75.4	5.3
Private housing starts	mil. units	1.083	1.199	1.509	1.609	1.623	1.485	37.1
Car sales	mil.	8.0	8.3	7.8	8.2	8.4	8.2	2.5

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Gross national product,1972 $	bil. 1972 $	1554.4	1598.7	1619.4	1634.6	1660.5	1628.4	4.7
Index of industrial product.	1967=100	157.2	164.5	166.0	167.3	168.5	166.6	6.0
Unemployment rate	%	7.9	7.4	7.3	7.1	7.1	7.2	-8.9
Capacity utilization rate	%	75.4	78.0	79.5	80.3	80.7	79.6	5.6
Private housing starts	mil. units	1.485	1.598	1.644	1.713	1.677	1.658	11.6
Car sales	mil.	8.2	9.1	8.9	9.2	9.6	9.2	12.2

* Historical Data (1) % change over previous year

the $9 billion level of the last quarter of 1981. KEDI's forecast shows that imports will start to grow significantly no earlier than the start of the third quarter when the need for added imports will begin to grow.

1.20 PRICES

(Table 1.20 on page 9)

The forecast of prices remains essentially the same. The table here presents the percentage changes calculated by KEDI on a year-to-year basis for both the CPI and the PPI.

Year	CPI	PPI
1982	5.8	4.9
1983	6.4	7.3
1984	7.4	8.9
1985	7.7	8.6
1986	7.8	8.8

For the rest of 1982, KEDI expects that consumer prices will accelerate in their upward trend. The main increases are expected in the prices of apparel, medical services, gas, and automobiles and appliance repair services. Food prices will be gaining at moderate rates except for a temporary spurt in some meat prices. Food prices lead gains in April by increasing 1.6 per cent. Pork ("horrors!" said Miss Piggy)jumped 13.5 per cent.

This Institute is not as optimistic as forecasters at Georgia State University. They see the chances as being good for the inflation rate to be under 5 per cent this year. An economist at Data Resources forecasts the rate as possibly being low as 4.4 per cent. KEDI would not take bets on such low rates at all.

TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	%
			1	2	3	4		(1)
Consumer price index	1967=100	272.4	283.0	284.9	289.6	295.5	288.3	5.8
Producer price index	1967=100	269.7	277.2	279.2	284.9	290.3	282.9	4.9
Implicit GNP price deflator	1972=100	193.7	201.8	204.6	206.9	209.3	205.7	6.1
Gross national product	bil.$	2925.5	2991.6	3037.8	3083.5	3161.2	3068.5	4.9
Personal consump. expend.	bil.$	1857.8	1945.1	1956.1	1978.1	1998.6	1969.5	6.0
Gross private dom. investment	bil.$	450.5	391.4	450.2	484.6	502.4	457.2	1.5

Indicator	Unit	1982	1983				1983	%
			1	2	3	4		(1)
Consumer price index	1967=100	288.3	301.0	304.2	309.1	313.0	306.8	6.4
Producer price index	1967=100	282.9	295.6	302.4	306.4	309.6	303.5	7.3
Implicit GNP price deflator	1972=100	205.7	213.0	216.1	219.9	224.8	218.4	6.2
Gross national product	bil.$	3068.5	3257.4	3334.9	3420.2	3559.3	3393.4	10.6
Personal consump. expend.	bil.$	1969.5	2059.2	2127.1	2209.5	2286.8	2170.7	10.2
Gross private dom. investment	bil.$	457.2	512.4	517.6	524.7	528.3	520.8	13.9

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Consumer price index	1967=100	306.8	318.8	325.1	333.2	340.3	329.4	7.4
Producer price index	1967=100	303.5	317.5	325.2	334.0	344.7	330.4	8.9
Implicit GNP price deflator	1972=100	218.4	228.2	233.4	238.5	244.8	236.3	8.2
Gross national product	bil.$	3393.4	3648.3	3779.4	3898.8	4065.1	3847.9	13.4
Personal consump. expend.	bil.$	2170.7	2347.5	2395.6	2455.6	2558.6	2439.3	12.4
Gross private dom. investment	bil.$	520.8	545.9	578.6	609.7	627.1	590.3	13.3

* Historical Data **Finished goods (1)% change over previous year

PRICES

About three-fourths of the Purchasing Managers surveyed by their national group said they anticipated stable or lower prices over the next six months. KEDI does not expect lower prices but near stability, as far as producer prices go, is likely.

In the long run, the outlook is optimistic. This Institute expects 7.0 - 7.5 per cent yearly increases in consumer prices for 1983-86. Food prices are projected to gain below that average. KEDI is more optimistic than Chase. The two forecasts for food prices are given here.

Year	Chase Econometrics	KEDI
1982	5.1%	5.0%
1983	6.5%	6.0%
1984	7.5%	6.8%

1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 11)

The forecast made at this Institute for the unemployment rate has been revised somewhat. As compared with the previous issue, the unemployment rate for this year has been raised from 8.8 per cent to 8.9 per cent. KEDI anticipates that the unemployment rate will peak this quarter and will gradually decline during the second half of the year. The main drops in joblessness are expected in chemicals, textiles, apparel, paper, and electrical machinery. Unemployment will drop slightly in the following: autos, steel appliances, noncoal mining, rubber, plastics, stone and clay. Still, it will remain uncomfortably high in these areas. More general improvement is anticipated for 1983. In 1984 there will be further drops in the jobless rate.

TABLE 1.30 EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1	2	3	4		
Population	mil.	225.9	228.0	229.2	230.4	231.4	229.6	1.6
Civilian labor force	mil.	108.7	109.2	110.3	110.9	111.8	110.6	1.7
Employment	mil.	100.5	99.9	99.8	101.0	102.3	100.8	3.0
Agriculture	mil.	3.4	3.4	3.4	3.3	3.3	3.4	.0
Non agriculture	mil.	97.1	96.5	96.4	97.7	99.0	97.4	.3
Unemployment Rate	%	7.62	8.77	9.51	8.89	8.51	8.92	17.1

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Population	mil.	229.6	231.5	232.2	232.9	233.4	232.5	1.3
Civilian labor force	mil.	110.6	112.6	113.8	114.9	115.8	114.3	3.3
Employment	mil.	100.8	103.3	104.7	106.1	107.0	105.3	4.5
Agriculture	mil.	3.4	3.3	3.4	3.3	3.4	3.4	.0
Non agriculture	mil.	97.4	100.2	101.3	102.8	103.6	101.9	4.6
Unemployment Rate	%	8.92	8.24	7.98	7.69	7.58	7.87	-11.7

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Population	mil.	232.5	234.5	235.2	236.0	236.9	235.7	1.4
Civilian labor force	mil.	114.3	117.0	117.9	118.8	120.1	118.5	3.7
Employment	mil.	105.3	108.4	109.3	110.3	111.6	109.9	4.4
Agriculture	mil.	3.4	3.3	3.4	3.4	3.4	3.4	.0
Non agriculture	mil.	101.9	105.1	105.9	106.9	108.2	106.5	4.5
Unemployment Rate	%	7.87	7.39	7.29	7.14	7.07	7.22	-8.3

* Historical Data (1) % change over previous year

EMPLOYMENT AND LABOR

A survey by the National Association of Business Economists showed that they see unemployment as going down only slightly to 9 per cent by the last quarter of this year. KEDI does NOT agree. The projection here is for the fourth quarter jobless rate to average 8.5. Their figure for the last quarter of 1983 and the KEDI figure are far apart. The projection here is for unemployment to average 7.6. Their survey showed 7.7 per cent for that same quarter a year and one-half away.

1.41 HOUSING

(Table 1.41 on page 13)

Housing starts in April were down by 6.4 per cent from the March adjusted level. Most newspapers regarded this as more evidence of a deepening slump in the housing industry. KEDI regards the *April decline as a temporary event*. Still, even without more decline, housing will remain in the doldrums. More indicative on future trends are the *building permits issued*. Authorized permits *rose* in April by 2.4 per cent according to preliminary figures published in the press.

A congressional study released in mid-May pointed to the need for 2 million new housing units yearly. That is over twice the number now being produced. The pent-up demand is bound to contribute to housing edging forward. House-sharing and group-living plans are not the solution for most Americans.

The forecast by this Institute remains essentially unchanged; for the rest of this year, small and gradual increases in housing starts, mainly in multi-family housing. Single family houses will gain slightly in the second half of the year. The total anticipated for 1982 is 626 thousand

TABLE 1.41 HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1	2	3	4		
Single-family housing starts	mil.	.706	.586	.590	.668	.661	.626	-11.3
Multifamily housing starts	mil.	.379	.333	.468	.510	.516	.457	20.6
Mobile home shipments	mil.	.241	.237	.250	.276	.288	.263	9.1
Permits authorized	mil.	.969	.832	.876	.960	1.061	.932	-3.8
1-family unit** price, new	tho.	83.1	80.6	81.2	81.7	82.4	81.5	-1.9
1-family unit** price, existing	tho.	78.0	80.3	80.9	81.4	81.7	81.1	4.0

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Single-family housing starts	mil.	.626	.709	.880	.895	.902	.846	35.1
Multifamily housing starts	mil.	.457	.490	.629	.714	.721	.638	39.6
Mobile home shipments	mil.	.263	.309	.340	.372	.357	.345	31.2
Permits authorized	mil.	.932	1.152	1.387	1.524	1.676	1.435	54.0
1-family unit** price, new	tho.	81.5	82.5	83.4	84.6	85.1	84.0	3.2
1-family unit** price, existing	tho.	81.1	82.3	82.9	83.4	84.7	83.3	2.7

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Single-family housing starts	mil.	.846	.895	.912	.982	.951	.935	10.5
Multifamily housing starts	mil.	.638	.703	.732	.731	.726	.723	13.3
Mobile home shipments	mil.	.345	.336	.340	.359	.364	.350	1.4
Permits authorized	mil.	1.435	1.602	1.711	1.795	1.784	1.723	20.1
1-family unit** price, new	tho.	84.0	85.8	87.0	88.2	88.9	87.5	4.2
1-family unit** price, existing	tho.	83.3	85.2	85.7	86.1	87.0	87.0	3.2

* Historical Data **Not seasonally adjusted (1)%change over previous year

single family units which is 10 per cent lower than the very depressed year of 1981. Multi-family units will gain.(See Table 1.41).

The forecast for mobile home shipments remains optimistic. A gain of 10 per cent is forecast for this year. In March such sales went up by 3 per cent over the year-earlier level.

1.42 AUTOMOBILES

(Table 1.42 on page 15)

There has been some revision in the forecast here with total auto sales projected for this year being slightly raised and the total for next year being slightly lowered. For the current year, production is projected at 5.3 million cars. That represents a drop of just over 15 per cent from the awful record of the prior year.

May production is expected to be about 23 per cent lower than the year earlier total as far as domestic makers of cars go. New car sales in April were off by almost 11 per cent. A drop in sales of imported autos was the largest contributor to the situation. (That will not bother the still-employed auto worker and may even bring a tiny sigh of temporary relief to those concerned with the U.S. made items.) GM sales were about flat and Ford and Chrysler sales were down. Still, in early May, the see-saw again moved and car sales were up 18 per cent for the first 10 days as compared to the year-ago period. The slight improvement is along the line of KEDI's forecast. Continuing very marginal gains are anticipated for the rest of the year while the see-saw pattern continues.

As previously reported, a more robust upturn in car production and

TABLE 1.42 AUTOMOBILES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1	2	3	4		
Passenger cars:								
Total sales	mil.	8.6	8.3	7.8	7.9	8.0	8.0	-7.0
Domestic	mil.	6.3	6.0	5.9	6.0	6.0	6.0	-4.7
Imported	mil.	2.3	2.3	1.9	1.9	2.0	2.0	-13.0
Dealers inventories**	mil.	1.5	1.1	1.4	1.0	1.3	1.3	-13.0
Factory shipments	mil.	6.3	4.1	5.2	5.5	6.4	5.3	-15.9
Light-duty truck sales	mil.	1.6	1.9	1.7	1.8	1.9	1.8	12.5

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Passenger cars:								
Total sales	mil.	8.0	8.3	7.8	8.2	8.4	8.2	2.5
Domestic	mil.	6.0	6.4	5.9	6.2	6.4	6.2	3.3
Imported	mil.	2.0	1.9	1.9	2.0	2.0	2.0	.0
Dealers inventories**	mil.	1.3	1.3	1.0	1.4	1.1	1.2	-7.6
Factory shipments	mil.	5.3	6.2	6.4	5.9	7.0	6.4	20.1
Light-duty truck sales	mil.	1.8	1.8	2.0	2.1	1.9	2.0	11.1

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Passenger cars:								
Total sales	mil.	8.2	9.1	8.9	9.2	9.6	9.2	12.2
Domestic	mil.	6.2	7.1	6.8	7.3	7.5	7.2	16.1
Imported	mil.	2.0	2.0	2.1	1.9	2.1	2.0	.0
Dealers inventories**	mil.	1.2	1.2	1.7	1.5	1.7	1.5	25.0
Factory shipments	mil.	6.4	7.2	7.5	7.1	7.7	7.4	15.6
Light-duty truck sales	mil.	2.0	2.0	2.1	2 2	2.3	2.2	10.0

* Historical Data **Not seasonally adjusted (1)%change over previous year

sales is expected not earlier than in 1984.

The projection shows that the share of imported cars will decline throughout the rest of this year and in 1983-1986. As to the domestic cars, the forecast is given here for the various shares of the market by companies:

KEDI forecast of market shares:	1982	1983	1984
General Motors	62%	60%	58%
Ford	22%	24%	24%
Chrysler	8%	10%	11%
VW	4%	4%	5%
AMC	2%	2%	2%
	100%	100%	100%

The forecast for light trucks remains unchanged. This year sales will gain by 12 per cent over last year. The yearly increase in 1983 is calculated here at 11 per cent, and in the following years at an average of 8 per cent each.

1.50 GOVERNMENT BUDGETS

(Table 1.50 on page 17)

The Senate approved a budget with $116 billion in red ink on May 21. It also included $107 billion in tax increases over three years.

KEDI's evaluation is that such a deficit, although high by historical standards, will not represent a danger for financial markets. As was covered in the Overview section, there is no direct connection between the deficit size and interest rates levels. The Senate also passed proposals for a deficit of $92 billion in fiscal 1984 and $65 billion in 1985. According to calculations here, the numbers will look quite

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1	2	3	4		
Federal govt.:								
Income taxes	bil. $	296.2	299.8	301.8	275.2	280.7	289.4	-2.3
Corporate prof. tax accruals	bil. $	66.0	42.7	42.1	45.6	48.9	44.8	-32.1
Surplus/deficit	bil. $	-62.4	-126.3	-128.4	-148.5	-118.7	-130.5	209.1
State and local governments:								
Income taxes	bil. $	91.9	98.6	101.5	104.9	111.3	104.1	13.3
Corporate prof. tax accruals	bil. $	11.7	8.3	8.1	8.9	10.4	8.9	7.6
Surplus/deficit	bil. $	36.7	36.4	37.1	36.3	34.2	36.0	-1.9

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Federal govt.:								
Income taxes	bil. $	289.4	201.3	302.1	272.8	286.4	288.2	-.4
Corporate prof. tax accruals	bil. $	44.8	51.3	62.4	73.1	78.6	67.7	51.1
Surplus/deficit	bil. $	-130.5	-103.2	-88.7	-114.6	-101.3	-102.0	-21.8
State and local governments:								
Income taxes	bil. $	104.1	114.8	117.3	121.5	124.6	119.5	14.8
Corporate prof. tax accruals	bil. $	8.9	11.2	12.6	14.0	16.5	13.5	51.7
Surplus/deficit	bil. $	36.0	33.8	34.5	35.8	36.4	35.1	-2.5

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Federal govt.:								
Income taxes	bil. $	288.2	303.5	313.8	329.8	343.8	322.7	12.0
Corporate prof. tax accruals	bil. $	67.7	80.4	84.5	90.7	95.4	87.8	29.7
Surplus/deficit	bil. $	-102.0	-98.6	-92.3	-87.5	-80.2	-89.7	-12.1
State and local governments:								
Income taxes	bil. $	119.5	126.3	129.9	132.4	135.1	130.9	9.5
Corporate prof. tax accruals	bil. $	13.5	17.4	19.3	21.5	22.7	20.2	49.6
Surplus/deficit	bil. $	35.1	37.8	39.7	41.5	43.6	40.7	16.0

* Historical Data

(1) % change over previous year

different. Since the last issue of this Survey, the deficit projections have been revised upwards. The current forecast is given here.

KEDI Forecast of the Federal Budget Deficits
(By fiscal year, in bil. $)

1983	121
1984	109
1985	77

The projections by this Institute for the expected savings (+signs) generated in the U.S. economy from 1982 through 1985 are as follows (The minus signs refer to funds needed from other sectors of the U.S. economy).

Savings and Needs for Funds
(Calendar years, bill. $)

	1982	1983	1984
Households	219.6	223.8	243.3
Business	-78.6	-98.7	-129.6
Federal Government	-142.9	-122.6	-102.7
State and Local Govts.	.9	1.7	2.5
Finance	17.9	19.6	21.1
Rest of the World	-16.9	-23.8	-34.6
Totals	238.4 -238.4	245.1 -245.1	266.9 -266.9

The table shows financial surpluses of Households, state and local governments, and financial sectors. As can be seen, financial needs, indicated on the table by the minus figures, can easily be covered from the existing sources where there are surpluses. Federal deficits, of the projected sizes, do not represent any projected disaster.

BUDGETS

KEDI's evaluation shows that the Senate version of the 1983 fiscal deficit is, in general, fairly realistic.

In this forecast there are no essential changes for the state and local budgets. There is, again, a downward revision of corporate profit taxes.

1.60 INCOME

(Table 1.60 on page 20)

The forecast of personal income and components remains essentially the same. Personal income did manage a minuscule gain in March by going up 0.4 per cent, and by similar increment in April. The little bright spot is that personal saving did increase to an annual rate of $121.8 billion--up from the former month by $17 billion. That was the first month of gains since last October.

Corporate profits have been revised downwards here, mainly due to further downwards revision of the forecasts for the following: oil, aerospace, paper products, steel, and mining. Currently, KEDI expects the decline in corporate after tax profits in 1982 as compared to 1981 to be approximately 20 per cent. For the rest of the year, such profits are anticipated as being close to flat with some improvement in the last quarter of this year.

The forecast of profits for 1982 includes continuous good performance in food products, grocery stores, office equipment, publishing, drug manufacturers, tobacco products, distilleries (even in the depression of the 1930's there were profits in booze), broadcasting, petroleum products, coal mining, high technology, banks, and (of course) utilities. Improvement from the depressed levels of 1981 are expected for paper

TABLE 1.60 INCOME

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	%
			1	2	3	4		(1)
Personal income	bil. $	2404.1	2511.3	2520.4	2546.6	2578.9	2539.3	5.6
Personal disposable income	bil. $	2016.0	2113.0	2117.1	2166.5	2186.9	2145.9	6.4
Compensation of employees	bil. $	1771.6	1844.2	1854.2	1879.5	1924.6	1875.6	5.9
Corporate after tax profits	bil. $	155.5	118.8	120.1	123.7	131.6	123.6	-20.5
Personal saving	bil. $	107.6	115.4	122.5	141.8	135.2	128.7	19.6
Average weekly earnings	bil. $	316.8	320.5	325.5	334.5	341.2	330.4	4.3

Indicator	Unit	1982	1983				1983	%
			1	2	3	4		
Personal income	bil. $	2539.3	2619.4	2694.6	2768.5	2831.2	2728.4	7.5
Personal disposable income	bil. $	2145.9	2213.3	2275.2	2374.2	2420.2	2320.7	8.1
Compensation of employees	bil. $	1875.6	1968.4	2011.5	2039.8	2065.1	2021.2	7.6
Corporate after tax profits	bil. $	123.6	142.3	150.1	161.2	168.7	155.6	25.9
Personal saving	bil. $	128.7	130.7	132.4	150.7	152.4	141.6	10.0
Average weekly earnings	bil. $	330.4	346.1	352.7	362.3	364.0	356.3	7.8

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		
Personal income	bil. $	2728.4	2901.4	2990.3	3080.2	3175.6	3036.9	7.4
Personal disposable income	bil. $	2320.7	2471.6	2546.6	2618.0	2696.7	2583.2	11.3
Compensation of employees	bil. $	2021.2	2116.5	2182.1	2254.7	2305.6	2214.7	9.6
Corporate after tax profits	bil. $	155.6	173.3	175.4	180.7	184.6	178.3	14.6
Personal saving	bil. $	141.6	146.5	141.2	143.5	147.8	144.8	2.3
Average weekly earnings	bil. $	356.3	371.5	378.6	385.0	388.9	381.0	6.9

* Historical Data (1) % change over previous year

and products, railway equipment, textiles, chemicals, appliances, electronics, and railroads. Performance in these areas will be more normal.

Improved but still below 1981 levels will be rubber and plastics, airlines, aerospace, tools and machinery, farm equipment, construction, clay, glass and stone, and nonferrous mining.

Still having problems will be automobiles, housing, furniture and fixtures, lumber and wood products, steel, and trucking.

1.70 MONEY AND CREDIT

(Table 1.70 on page 22)

The forecast for the money supply remains essentially the same. The data now show that both M1 and M2 (the broader measure of the money supply) will remain within the range set up by the Fed. The indications are that the Federal Reserve has, hopefully, gotten control of the money supply at last.

In the fall of 1979, the Fed shifted their attention to trying to control the money supply rather than interest rates. Well, up to now, growth in the money supply has been highly erratic. As Louis Rukeyser pointed out in a column in early May, that must have been an embarrassment to the chairman of the Federal Reserve. It is also noticed here that interest rates went on the erratic trail. It is easy to conclude that the Fed's efforts or lack of them in both areas were hardly on the mark. At long last, that seems to be changing--as least as far as the money supply goes.

TABLE 1.70 MONEY AND CREDIT

(Data for "Currency and demand deposits,M1","Time deposits, adjusted,M2", and "Large denomination time deposits" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1981*	1982				1982	% (1)
			1	2	3	4		
Currency and demand deposits	bil. $	430.0	442.7	449.5	457.3	465.2	453.7	5.5
Time deposits, adjusted, M2	bil. $	1723.4	1852.4	1863.4	1873.2	1882.6	1867.9	8.4
Consumer instal. credit	bil. $	333.4	331.0	335.4	342.6	348.3	348.3	4.5
Commerc.&indus. loans at banks	bil. $	360.7	370.4	376.5	384.2	388.5	388.5	7.7
Large denomination time dep.	bil. $	305.5	310.5	313.8	327.4	332.5	332.5	8.8
Mortgages at S & L Assns.	bil. $	518.4	521.9	524.8	529.9	536.3	536.3	3.5

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Currency and demand deposits	bil. $	453.7	475.3	481.3	486.7	492.5	484.0	6.7
Time deposits, adjusted, M2	bil. $	1867.9	1924.8	1957.8	1991.3	2023.4	1974.3	5.7
Consumer instal. credit	bil. $	348.3	356.8	362.6	370.8	380.5	380.5	9.2
Commerc.&indus. loans at banks	bil. $	388.5	396.9	405.9	414.2	419.7	419.7	8.0
Large denomination time dep.	bil. $	332.5	336.1	341.5	349.2	357.6	357.6	7.5
Mortgages at S & L Assns.	bil. $	536.3	540.7	547.5	554.3	559.1	559.1	4.3

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Currency and demand deposits	bil. $	484.0	498.2	506.3	516.2	521.7	510.6	5.5
Time deposits, adjusted, M2	bil. $	1974.3	2059.8	2108.9	2164.3	2215.3	2137.1	8.2
Consumer instal. credit	bil. $	380.5	387.4	392.6	398.5	404.7	404.7	6.4
Commerc.&indus. loans at banks	bil. $	419.7	427.5	436.8	445.7	449.6	449.6	7.1
Large denomination time dep.	bil. $	357.6	364.7	372.8	383.5	389.4	389.4	8.9
Mortgages at S & L Assns.	bil. $	559.1	567.3	576.2	583.1	591.7	591.7	5.8

* Historical Data [illegible]

MONEY AND CREDIT

The projections here show that commercial and industrial loans will begin to grow more sharply in the latter part of this year and accelerate into 1983. The increase forecast for 1983 over 1982 is close to 8 per cent, and the upward move in 1984 is seen as 7 per cent.

Recently released data show that consumer credit has started to pick up. In March, such debt grew by $990 million, seasonally adjusted. That was the biggest gain since last October. The March increase works out to an annual growth rate of 3.5 per cent. The rate for the first quarter of this year was 2 per cent. KEDI's forecast shows that the upwards trend will continue during the rest of this year. In 1983, a sharp rise is expected.

The forecast for mortgages shows still more sluggish growth. This year, a gain of roughly 3 per cent is calculated as compared to 1981. In 1983, an improvement of 4.3 per cent is calculated. It will not be until 1984 that a more normal growth rate of 5 - 6 per cent will take place.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 24)

Recent development are confirming the forecast concerning interest rates that has been maintained here for quite some time. That is, such rates will be gradually declining. Recent declines in banks' cost of funds will very likely trigger a cut in the lending fee with a reduction in the prime rate to the 16 per cent range in the next few weeks.

KEDI is not as optimistic as the consensus of 40 forecasters surveyed

TABLE 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES
(Quarterly averages of monthly figures)

Indicator	Unit	1981*	1982				1982	% (1)
			1	2	3	4		
Treasury bills (3 mo) yield	%	14.03	13.24	12.65	12.14	11.98	12.50	-10.1
Prime rate	%	18.87	16.67	16.07	15.53	14.72	15.75	-16.4
Conventional mortgages rate	%	16.52	17.28	17.19	16.82	15.91	16.80	1.7
Aaa corporate bonds rate	%	14.17	15.24	14.32	14.02	13.71	14.32	1.1
20 years Govt. bonds yield	%	13.72	14.06	13.78	13.61	13.10	13.64	-.1
Standard & Poor's 500 avg.	1941-43=100	128.05	114.26	125.32	128.51	126.43	123.63	-4.5

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Treasury bills (3 mo) yield	%	12.50	12.14	12.47	12.71	12.89	12.56	.5
Prime rate	%	15.75	14.36	14.14	14.19	14.51	14.30	-9.2
Conventional mortgages rate	%	16.80	15.54	15.19	15.01	15.04	15.20	-9.5
Aaa corporate bonds rate	%	14.32	13.36	13.21	13.30	13.44	13.33	-6.9
20 years Govt. bonds yield	%	13.64	13.08	13.02	13.15	13.23	13.12	-3.8
Standard & Poor's 500 avg.	1941-43=100	123.63	126.52	128.41	127.25	129.48	127.98	3.5

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Treasury bills (3 mo) yield	%	12.56	13.15	12.85	12.21	11.96	12.54	.2
Prime rate	%	14.30	14.65	14.43	14.05	13.58	14.18	.8
Conventional mortgages rate	%	15.20	15.13	14.91	14.65	14.07	14.69	-3.4
Aaa corporate bonds rate	%	13.33	13.18	12.97	12.65	12.02	12.71	-4.8
20 years Govt. bonds yield	%	13.12	13.41	13.22	13.08	12.85	13.14	.2
Standard & Poor's 500 avg.	1941-43=100	127.98	130.15	127.24	126.14	121.25	126.20	-1

* Historical Data (1) % change over previous year

INTEREST RATES

by Blue Chip Economic Indicators. That survey shows 90 day Treasury bill rates moving down to 10.6 by the last quarter of next year and top rated corporate bond rates dropping to 12.9 per cent. KEDI expects Treasury bill to be at a 12.89 rate at the end of that year and Aaa bonds to be at 13.44. This Institute does agree with a survey of 400 economists by the National Association of Business Economists. They expect the prime rate to slip down to 14.6 per cent by the end of this year and to 12.9 by the end of 1983. Currently that rate is at the 16.5 range. KEDI projects the prime rate will reach 16 per cent in June and move down to 14.72 at the end of the year.

Mr.Kellner of Manufacturers Hanover expressed the fear that the prime rate could move up to 22 per cent by August. That is unfounded. He is mentally tying it to the increase in deficit.

KEDI does agree with professor Feldstein of Harverd in that long term rates will decline as inflation expectations adjust to lower levels.

The prediction of the stock market shows that the long slide of the Dow Jones from its high of 1,000 to the present range of 840 is about at the end. Stabilization with some slight increases is forecast here. The Dow Jones Average is predicted to be in the 900 range in 1983. The forecast for Standard & Poor's 500 is given:

1982	123.6
1983	127.9
1984	126.2

The 1982 average is slightly below the 1981 average. However, there is a generally good performance in the next two years.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the Gross National Product in constant 1972 $ for the year 1981 has been selected for comparison. The actual figure is in Table 1.1 of the Survey of Current Business, No.3, March 1982 (U.S. Department of Commerce, Washington, D.C., monthly). Forecast data are from Business Forecasts 1981 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1981. Some forecasters were unable to catch the December 1980 revision of the Income and Product data, and their forecasts may deviate because of this reason. The following table shows the predictions of forecasters and deviations of forecast data.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

(Gross National Product in constant 1972 $. Billions $)

Actual figure: 1510.3

Forecaster	Date of Forecast	Forecast	Page of Business Forecasts 1981	% of Accuracy
A.George Gols,Arthur D.Little	11/80	1418.1	6	-6.1
Albert T.Sommers, The Conference Board	11/20/80	1438.6	8	-4.7
Metropolitan Life	11/30/80	1434.7	10	-5.0
U.S.Trust Company,New York	12/80	1434.0	12	-5.1
United Business Service	12/8/80	1449.0	14	-4.1
Walter D.Fackler, University of Chicago	12/8/80	1447.0	14	-4.2
Peter H.Jedel Cities Service	12/23/80	1427.9	16	-5.5
J.A.Livingston	12/28/80	1433.0	18	-5.1
Peter L.Bernstein	11/1/80	1430.0	20	-5.3
American Statistical Assn. and National Bureau of Economic Research	11/80	1438.1	21	-4.8
AmeriTrust	11/80	1436.0	22	-4.9
Georgia State University	11/80	1438.4	23	-4.8
The First National Bank of Chicago	11/8/80	1427.0	24	-5.5
Manufacturers Hanover Trust	11/12/80	1415.5	25	-6.3
Chemical Bank	11/24/80	1443.0	26	-4.5
UCLA	12/80	1439.5	27	-4.7
Alex A. Burkholder, WGN Continental Broadcasting Co.	12/11/80	1419.0	29	-6.0
Edward S. Hyman,Jr. and Cyrus J. Lawrence, Inc.	12/11/80	1439.7	29	-4.7
Bankers Trust Company	12/10/80	1432.6	30	-5.2
Data Resources, Inc.	12/28/80	1424.1	32	-5.7
KEDI	12/30/80	1515.6	33	+.4
Fidelity Bank	12/31/80	1438.1	34	-4.8
Morgan Guaranty Trust Company	1/6/81	1499.7	35	-.7
Chase Econometrics	1/7/81	1489.6	36	-1.4
Equitable Life Assurance	1/9/81	1484.4	37	-1.7

3.0 HISTORICAL DATA SOURCES

For the reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the historical source. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.), Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly).

Table 3.0 HISTORICAL DATA SOURCES

Table No.	Data Series	Source
1.10 REAL GROWTH	Gross national product, 1972$	SCB, Table 1.2
	Index of industrial production	IIP, page 2
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.20 PRICES AND NOMINAL GNP	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit GNP price deflator	SCB, Table 7.1
	Gross national product	SCB, Table 1.1
	Personal consumption expenditures	SCB, Table 1.1
	Gross private domestic investment	SCB, Table 1.1
1.30 EMPLOYMENT AND LABOR	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employed	SCB, Blue pages
	-Agriculture	SCB, Blue pages
	-Non agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages

(Table 3.00 continues on the following page)

Table 3.0 HISTORICAL DATA SOURCES (Continued)

Table No.	Data Series		Source
1.41 HOUSING	Single-family housing starts		SCB, Blue pages
	Multifamily housing starts		SCB, Blue pages
	Mobile home shipments		SCB, Blue pages
	Permits authorized		SCB, Blue pages
	1-family unit price, new		FRB, Table 2.14
	1-family unit price, existing		FRB, Table 2.14
1.42 AUTOMOBILES	Passenger cars:	Total sales	SCB, Blue pages
		Domestic	SCB, Blue pages
		Imported	SCB, Blue pages
		Dealers inventories	SCB, Blue pages
		Factory shipments	SCB, Blue pages
	Light-duty truck sales		SCB, Blue pages
1.50 FEDERAL AND STATE AND LOCAL BUDGETS	Federal govt.:	Income taxes	SCB, Table 3.2
		Corp.profit tax accr.	SCB, Table 3.2
		Surplus/deficit	SCB, Table 3.2
	State and local governments:	Income taxes	SCB, Table 3.3
		Corp.profit tax accr.	SCB, Table 3.3
		Surplus/deficit	SCB, Table 3.3
1.60 INCOME	Personal income		SCB, Table 2.1
	Personal disposable income		SCB, Table 2.1
	Compensation of employees		SCB, Table 1.11
	Corporate after tax profits		SCB, Table 1.11
	Personal saving		SCB, Table 2.1
	Average weekly earnings		SCB, Blue pages
1.70 MONEY AND CREDIT	Currency and demand deposits, M1		FRB, Table 1.21
	Time deposits, adjusted, M2		FRB, Table 1.21
	Consumer installment credit		FRB, Table 1.56
	Commercial & industrial loans		FRB, Table 1.23
	Large denomination time deposits		FRB, Table 1.21
	Mortgages at S&L Associations		FRB, Table 1.55
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES	Treasury bills (3 mo) yield		FRB, Table 1.10
	Prime rate		FRB, Table 1.33
	Conventional mortgages rate		FRB, Table 1.10
	Aaa corporate bonds rate		FRB, Table 1.35
	20 years Government bonds yield		FRB, Table 1.10
	Standard & Poor's 500 average		FRB, Table 1.36

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KEDI ECONOMIC SURVEY

JULY 1982 ISSUE

KENT ECONOMIC AND DEVELOPMENT INSTITUTE

P.O. Box 641/Kent, Ohio 44240/U.S.A.

Vol. 8, No. 1, July 1, 1982

KEDI ECONOMIC SURVEY

JULY 1982 ISSUE

President: Vladimir J. Simunek

This updated monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquiries should be directed to: KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, Kent Student Center, KSU Campus, Kent, OH 44242, U.S.A. Kent State University Foundation, Inc., and Kent Economic and Development Institute are not liable for any claim based on deviation of forecast data from actual data. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

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Publication No. 078200734
KEDI July 1, 1982

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3.00 HISTORICAL DATA SOURCES 26

This forecast uses the June, 1982, U.S. Department of Commerce revised National Income and Product data. Also used is the June 1982, Board of Governors of the Federal Reserve System release of the Index of Industrial Production, and the latest available data on prices, employment, industrial, and financial developments.

1.00 OVERVIEW AND ASSUMPTIONS

1.01 OVERVIEW

The economic news continues to reflect general flatness, the continuation of some declines, and a few glimpses of gains. As has been forecast here for many months, there will be some slow recovery starting in the latter part of this year. However, the rebound will not be so weak that only cloistered economists will notice it.

1. During 1983 and 1984, the growth will accelerate
2. In 1985, there will be some slowdown
3. Growth will resume in 1986.

The deficit of the federal budget for fiscal 1983 approved by the Senate amounted to $116 billion. The House-Senate Conference approved the figure of $104 billion. Calculations here show that $104 billion is not very realistic.

The world economy is seen here at KEDI as being in a slump for about one more year. Signs of improvement will begin to emerge in the second half of 1983.

This Institute is a bit more optimistic than the International Monetary Fund which forecasts the world economy as being in a slump for the next year and one-half. KEDI forecasts show the United States LEADING in world recovery with other nations following.

1.02 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, the changes concern the updates of Assumption No.7.

1. In 1986, all U.S. demand for oil should be met. In 1982, it is

ASSUMPTIONS

expected the weighted price of oil will be $33; in 1983 it will go up to $34 per barrel; in 1984, to $37 per barrel; in 1985, to $40 per barrel; and in 1986, to $42 per barrel.

2. It is expected, that the Mid East crisis will continue throughout this year, and more normal economic conditions, including a significant resumption in the area of oil exports, will take place not earlier than in 1984.

3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1982-1986 period. In 1982, some relaxation, and in 1983-1984, tightening is assumed.

4. Increases in state and local taxation in 1982-1986 are anticipated.

5. Our foreign trade with China will gain a substantial momentum in 1982 and following years.

6. In 1982 and 1983 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1984. The years 1984 and 1985 should bring U.S. record crops.

It is projected here that the average rates of growth in 1982-1986 in the major industrial countries will be as follows for real GNP: West Germany 3.4%, Japan 3.6%, Italy 2.4%, Great Britain 2.1%, France 2.8%.

8. No drastic changes in existing international relationships are assumed in this forecast.

The July 1982 KEDI forecast is highlighted in Table 1.0 KEDI FORECAST HIGHLIGHTS on page No.3.

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE

MONTH: July 1,1982

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1981	1982	1985	1986
Gross National Product	bil. const. 72 $	1510.3	1492.3	1693.7	1754.1
Index of Industrial Production	1967 =100	151.0	143.8	174.8	178.6
Capacity Utilization	%	78.5	71.1	79.7	81.0
Unemployment Rate	%	7.6	9.0	7.3	6.9
Private Housing Starts	mil. units	1.084	1.085	1.729	1.792
Car Sales	mil. units	8.6	8.0	9.3	10.1
Implicit GNP Price Deflator	1972 =100	193.7	205.4	237.9	256.8
Consumer Price Index	1967 =100	272.4	289.0	356.3	382.9
Producer Price Index	1967 =100	269.7	281.1	357.5	389.8
Federal Deficit	bil. $	-62.4	-129.2	-66.4	-41.5
Personal Income	bil. $	2404.1	2538.3	3271.6	3501.2
Prime Rate	%	18.87	16.00	13.89	13.06
Mortgage Rate	%	16.52	16.97	13.54	12.61
Currency plus Demand Deposits	bil. $	427.1	457.2	546.3	580.2
Commercial and Industrial Loans	bil. $	360.6	388.9	434.6	474.5

1.10 REAL GROWTH

(Table 1.10 on page 5)

The end result of the various small moves during the second quarter--some slight downward data and whisps of upturns--will be an essentially flat period. The third quarter is seen here as showing elements of a modicum of slightly respectable recovery while the last quarter will lead into some escalation of growth in 1983. Due to the declines that took place in the first part of this year, the average change in GNP for the year will show a negative figure.

In earlier issues, KEDI complimented the Administration on getting inflation under control but lamented the overly optimistic early pronouncements about the economy. When those did not come true, they contributed to business getting too "down" and the accenting of the negative in the media.

Now, there are elements that are going too far in the other direction. Radio commercials push the sale of a leading economic newspaper because "recovery is just around the corner." Budget Director Stockman sees the economy growing in the 4-5 per cent range in the last six months of this year.

Just hold your horses here. The pendulum went swinging too far toward gloom before and now the reverse is true in some areas. KEDI calculates growth in the latter part of this year as being in the 3-3½ per cent area. Again, the negative first quarter will offset that in the yearly average. Reports surfacing during the last month lend credence to the view that recovery is not yet beginning, and it will be quite slow.

TABLE 1.10 REAL GROWTH
(Unless otherwise stated, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1	2	3	4		
Gross national product, 1972 $	bil. 1972 $	1510.3	1484.5	1485.2	1489.8	1509.7	1492.3	-1.1
Index of industrial product.	1967=100	151.0	141.6	141.4	145.1	147.2	143.8	-4.8
Unemployment rate	%	7.6	8.8	9.5	9.0	8.6	9.0	18.0
Capacity utilization rate	%	78.5	71.5	70.3	70.8	71.8	71.1	-9.4
Private housing starts	mil. units	1.084	.919	1.075	1.172	1.177	1.085	.1
Car sales	mil.	8.6	8.3	7.7	7.9	8.0	8.0	-7.0

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Gross national product, 1972 $	bil. 1972 $	1492.3	1528.6	1540.7	1560.3	1581.2	1552.7	4.0
Index of industrial product.	1967=100	143.8	151.2	155.1	158.8	162.0	156.8	9.0
Unemployment rate	%	9.0	8.5	8.1	7.8	7.6	8.0	-11.0
Capacity utilization rate	%	71.1	72.6	74.8	76.0	76.1	74.9	5.3
Private housing starts	mil. units	1.085	1.203	1.507	1.612	1.634	1.489	37.2
Car sales	mil.	8.0	8.3	7.9	8.3	8.4	8.3	2.5

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Gross national product, 1972 $	bil. 1972 $	1552.7	1598.1	1618.9	1632.4	1658.7	1627.0	4.8
Index of industrial product.	1967=100	156.8	164.3	165.7	166.8	168.0	166.2	5.7
Unemployment rate	%	8.0	7.4	7.3	7.2	7.1	7.3	-9.2
Capacity utilization rate	%	74.9	77.7	78.6	79.5	80.1	79.0	5.5
Private housing starts	mil. units	1.489	1.600	1.646	1.717	1.680	1.661	11.6
Car sales	mil.	8.3	9.0	8.9	9.1	9.4	9.1	9.6

* Historical Data (1) % change over previous year

REAL GROWTH

Negative News

1. Construction spending edged down in April by 0.6 per cent from the prior month. The pace was 5.6 per cent lower than the April, 1981, level.

2. Capital spending remains low. KEDI expects it to continue that way. Alan Greenspan of Townsend-Greenspan (economic forecasting) expects inflation-adjusted spending to decline 3 per cent this year. KEDI calculates the drop a bit less than that: 2 per cent is the inflation adjusted change from the 1981 level. The Commerce Department survey of plans for capital spending shows a slight decrease of less than 2 per cent between the first and second quarters and similar gain between the second and third quarters. For the year, the survey, done in April and May, reflects a decline of 2.4 per cent from the 1981 level.

3. The American Iron and Steel Institute reported that the industry used 42.5 per cent of operating capacity in early June. The year-ago rate was 84 per cent. Steel is one of the industries that will continue to have serious problems this year. Steel production was down to 1.365 million tons in the last week of May and edged down again in the first week of June to 1.260 tons.

4. The operating rate of factories moved down to 70.8 per cent in May from 71 per cent in April. That rate has been falling since February, but recent declines have slowed.

5. Also flattening is the Index of Industrial Production which only declined by 0.2 per cent in May. Again, these small changes point to some future improvement.

6. Retail sales gained 1.5 per cent in May. This, again, reflected auto sales which are in a temporary mini-spurt.

REAL GROWTH

Robert Ortner, chief economist at the Commerce Department, publicly mentioned what KEDI has been saying for some time: The recovery will be led by the consumer. However, this Institute is not quite as cheerful as Data Resources. An economist there pointed to third quarter retail sales rising 9 per cent if interest rates don't increase. KEDI sees such sales gaining in the 4 per cent range in the third quarter.

Better News

7. Machine tool orders did go up 12 per cent in April but the gain was largely attributable to a drop in cancellations of previous orders. The total was still about at half the rate for the comparable year-earlier figure.

8. Housing starts jumped 22.3 per cent in May. KEDI views the news as good. However, it is not seen as the start of a trend of ever-increasing starts at this point.

9. The composite index of leading indicators moved up in April for the first time this year. In April it was at 125.2 per cent of the 1967 average as compared to the revised rate of 124.2 in March.

10. The Conference Board survey of consumer confidence released in early June showed that Americans are increasingly optimistic about the economic future.

11. New factory orders for durable goods went up 1 4 per cent in May. They had declined a revised 3.6 per cent in April.

12. Personal income posted a respectable gain in April.(See Section 1.60)

Overall, the news is mixed as it has been in recent months. The declines are getting smaller. There are more hints of improvement to come. KEDI maintains the view that the fourth quarter of this year will be the best of the year, but it will not merit any big celebration. Perhaps, a toast to the start of some gradual growth will be in order then.

1.20 PRICES
(Table 1.20 on page 9)

KEDI's forecast continues to show that the inflation rate as measured by the CPI will accelerate in the coming months. This is mainly because of the expected increases during the rest of this year in the following:

gasoline and heating oil prices,
continuing double digit gains in costs of medical services,
and electricity price rises.

The projection at this Institute shows price increases of over 10 per cent in four areas.

Price changes in 1982 over 1981	
Electricity	+12%
Gasoline	+16%
Heating oil	+15%
Medical and other health services	+11%

The average annual CPI inflation rate in 1982 is projected here as 6.0 per cent. That is a slight gain over the forecast last month of 5.8.

In May, consumer prices jumped ahead by an adjusted 1.0 per cent after posting only a 0.2 per cent increase in April. In the 12 months ending in May prices went up 6.7 per cent.

TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1	2	3	4		
Consumer price index	1967=100	272.4	283.6	287.0	290.4	295.6	289.0	6.1
Producer price index**	1967=100	269.7	277.2	277.6	282.8	286.9	281.1	4.2
Implicit GNP price deflator	1972=100	193.7	202.0	204.2	206.3	208.9	205.4	6.0
Gross national product	bil.$	2925.5	2998.4	3032.8	3073.5	3153.8	3064.6	4.8
Personal consump. expend.	bil.$	1857.8	1946.7	1953.5	1966.3	1990.5	1964.3	5.8
Gross private dom. investment	bil.$	450.5	393.8	441.3	478.5	492.6	451.6	.2

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Consumer price index	1967=100	289.0	301.0	305.4	310.9	314.8	308.2	6.6
Producer price index**	1967=100	281.1	290.3	297.5	303.4	307.8	299.8	6.7
Implicit GNP price deflator	1972=100	205.4	212.9	215.9	219.5	224.3	218.2	6.2
Gross national product	bil.$	3064.6	3254.4	3326.4	3424.9	3546.6	3388.1	10.6
Personal consump. expend.	bil.$	1964.3	2048.3	2108.3	2193.4	2262.5	2150.6	9.5
Gross private dom. investment	bil.$	451.6	502.1	506.7	514.3	519.8	510.7	13.0

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Consumer price index	1967=100	308.2	319.5	326.9	334.0	342.1	330.6	7.3
Producer price index**	1967=100	299.8	311.5	318.2	327.0	338.5	323.8	8.0
Implicit GNP price deflator	1972=100	218.2	227.8	231.6	236.2	242.9	234.6	7.5
Gross national product	bil.$	3388.1	3640.5	3749.4	3855.7	4029.0	3818.6	12.7
Personal consump. expend.	bil.$	2150.6	2322.8	2391.1	2441.7	2509.8	2416.4	12.4
Gross private dom. investment	bil.$	510.7	534.6	565.7	595.8	618.4	578.6	13.3

* Historical Data

(1) % change over previous year **Finished goods

1.30 EMPLOYMENT AND LABOR
(Table 1.30 on page 11)

The basic forecast remains the same. There is a 0.1 addition to the projection for the rate of unemployment this year to 9.0. KEDI is not as pessimistic as some economists that see the rate peaking around 10.2 in August. That is a figure used by Joel Popkin, an economic consultant. Also, the consensus of 12 leading economists surveyed by The Wall Street Journal showed an average peak possible of 10 per cent or more this summer.

Indications are that joblessness is reaching a level position. A positive sign is that the average workweek in manufacturing for production workers rose to 39.1 hours in May from the 39.0 average in April. At least, it did not decline.

Unemployment in May averaged 9.5 per cent. KEDI does not expect the unemployment rate will go up significantly in the coming months.

The forecast by KEDI for the yearly unemployment rate is presented:

	Unemployment Rate (year averages)
1982	9.0 %
1983	8.0 %
1984	7.2 %
1985	7.3 %
1986	6.9 %

The International Monetary Fund predicts that unemployment in this country will average 9 per cent this year and about 9.5 per cent in 1983. KEDI obviously agrees with the former but not the 1983 figure.

TABLE 1.30 EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	%
			1	2	3	4		(1)
Population	mil.	225.9	228.0	229.2	230.4	231.4	229.6	1.6
Civilian labor force	mil.	108.7	109.1	110.3	110.9	111.8	110.6	1.7
Employment	mil.	100.5	99.6	99.8	101.0	102.2	100.6	.1
Agriculture	mil.	3.4	3.4	3.4	3.3	3.3	3.4	.0
Non agriculture	mil.	97.1	96.2	96.4	97.6	98.8	97.2	.1
Unemployment Rate	%	7.62	8.77	9.54	9.01	8.64	8.99	18.0

Indicator	Unit	1982	1983				1983	%
			1	2	3	4		(1)
Population	mil.	229.6	231.5	232.2	232.9	233.4	232.5	1.3
Civilian labor force	mil.	110.6	112.6	113.8	114.9	115.8	114.3	3.3
Employment	mil.	100.6	103.1	104.5	106.0	107.0	105.1	4.5
Agriculture	mil.	3.4	3.3	3.4	3.3	3.4	3.4	.0
Non agriculture	mil.	97.2	99.8	101.1	102.7	103.6	101.8	4.7
Unemployment Rate	%	8.99	8.47	8.14	7.78	7.61	8.00	-11.0

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Population	mil.	232.5	234.5	235.2	236.0	236.9	235.7	1.4
Civilian labor force	mil.	114.3	117.0	117.9	118.8	120.1	118.5	3.7
Employment	mil.	105.1	108.3	109.3	110.3	111.5	109.9	4.6
Agriculture	mil.	3.4	3.3	3.3	3.4	3.4	3.4	.0
Non agriculture	mil.	101.8	105.0	105.9	106.9	108.1	106.5	4.6
Unemployment Rate	%	8.00	7.43	7.31	7.16	7.14	7.22	-9.2

* Historical Data (1)% change over previous year

1.41 HOUSING

(Table 1.41 on page 13)

Housing starts went above an annual rate of a million in May for the first time since last summer. The annual rate went up by 22.3 per cent in May to 1.09 million. The gain is viewed here as a temporary one. Given mortgage rates and the general economic conditions, such rapid improvement cannot be sustained. Mortgage rate are seen as continuing at high levels throughout this year. KEDI agrees with Donal Straszheim of Wharton Econometrics that the housing sector cannot be vibrant until mortgage rates slide.(One can speculate as to what "E.T.'s" home alluded to in the movie might be like and hope there isn't a high interest mortgage on it.)

Building permits issued also had a strong showing in May. They were up 10.2 per cent over April.

The government released housing funds in May that helped fuel the jump in starts--especially of multifamily units that are government subsidized. Such a release of funds does not happen every month.

The forecast here that the main housing thrust will be in multi-family units is maintained.

KEDI has been forecasting for quite some time that housing will not lead us out of recession, nor will autos as has been true in the past.

A negative sign was the continuation of lousy sales for new single-family houses. They went plunging down by 15.3 per cent to an annual rate of just 315,000. The few homes that are selling are often going for lower prices than the paper value of a year or two ago. The National Association of Realtors estimates prices have gone down an average of 17 per cent since the end of 1979 including figuring in the effects of discount financing. Still, it gets more and more costly to build a home and that will

TABLE 1.41 HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1	2	3	4		
Single-family housing starts	mil.	.706	.586	.607	.661	.659	.628	-11.3
Multifamily housing starts	mil.	.379	.333	.468	.511	.516	.457	20.6
Mobile home shipments	mil.	.241	.237	.253	.278	.292	.265	10.0
Permits authorized	mil.	.969	.832	.952	.974	1.086	.961	-.9
1-family unit** price, new	tho.	83.1	82.0	84.3	85.6	86.8	84.7	1.9
1-family unit** price, existing	tho.	78.0	79.3	80.1	81.2	82.0	80.7	3.5
Indicator	**Unit**	**1982**	**1983**				**1983**	**% (1)**
			1	2	3	4		
Single-family housing starts	mil.	.628	.711	.886	.898	.913	.852	35.7
Multifamily housing starts	mil.	.457	.492	.621	.714	.721	.637	39.4
Mobile home shipments	mil.	.265	.314	.348	.383	.365	.353	33.2
Permits authorized	mil.	.961	1.159	1.396	1.531	1.682	1.442	50.1
1-family unit** price, new	tho.	84.7	87.4	88.5	89.7	90.4	89.0	5.1
1-family unit** price, existing	tho.	80.7	82.6	83.8	84.9	85.6	84.2	4.3
Indicator	**Unit**	**1983**	**1984**				**1984**	**% (1)**
			1	2	3	4		
Single-family housing starts	mil.	.852	.897	.914	.986	.954	.938	10.1
Multifamily housing starts	mil.	.637	.703	.732	.731	.726	.723	13.5
Mobile home shipments	mil.	.353	.342	.351	.373	.378	.361	2.3
Permits authorized	mil.	1.442	1.624	1.718	1.798	1.789	1.732	20.0
1-family unit** price, new	tho.	89.0	92.3	93.6	94.8	96.7	94.4	6.1
1-family unit** price, existing	tho.	84.2	87.0	88.1	89.5	91.3	89.0	5.7

* Historical Data **Not seasonally adjusted (1)% change over previous year

continue. At the same time, few can afford them. The average sales price was over $72,000 in April.

1.42 AUTOMOBILES

(Table 1.42 on page 15)

The forecast here is unchanged. The May increase in sales is viewed here as a mini-spurt attributable to rebates and other incentives. May sales were up 11.6 per cent for domestic cars, but the early June sales were a tad lower than they were in early June of last year. Preliminary estimates show a slight edging down of 0.1 per cent year-to-year.

Production plans remain cautious as the table here shows(second quarter 1982):

	1982	1981	% change
GM	960,000	1,255,700	-23.5
Ford	407,000	436,900	-6.8
Chrysler	170,000	242,100	-29.8
AMC	11,000	31,300	-64.9
VW	24,800	46,500	-46.7
Total	1,572,800	2,012,500	-21.8

For the third quarter of this year, car production is expected to remain close to the second quarter level.

The import share of the market went down 7 per cent this May from the year-earlier level. Imports share came to 24.4 per cent this May. The change is in line with the forecast maintained here for quite some time.

A new government booklet notes that it now cost 26.6 cent to drive a large car one mile, 23.8 cents to drive an intermediate one, 21.4 cents for a compact, and 18.9 cents for a sub-compact. In the first three years of ownership, gas will cost about $1,800 more for the large car than the subcompact. (Roominess and comfort do have continuing costs.)

TABLE 1.42 AUTOMOBILES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	%
			1	2	3	4		(1)
Passenger cars:								
Total sales	mil.	8.6	8.3	7.7	7.9	8.0	8.0	-7.0
Domestic	mil.	6.3	6.0	5.9	6.0	6.0	6.0	-4.7
Imported	mil.	2.3	2.3	1.8	1.9	2.0	2.0	-13.0
Dealers inventories**	mil.	1.5	1.1	1.4	1.2	1.5	1.3	-13.3
Factory shipments**	mil.	6.3	4.1	5.0	5.3	6.3	5.2	-16.5
Light-duty truck sales	mil.	1.6	1.9	1.7	1.8	1.9	1.8	12.5

Indicator	Unit	1982	1983				1983	%
			1	2	3	4		(1)
Passenger cars:								
Total sales	mil.	8.0	8.3	7.9	8.3	8.4	8.3	3.4
Domestic	mil.	6.0	6.4	6.0	6.3	6.4	6.3	3.3
Imported	mil.	2.0	1.9	1.9	2.0	2.0	2.0	.0
Dealers inventories**	mil.	1.3	1.4	1.2	1.3	1.3	1.3	.0
Factory shipments**	mil.	5.2	6.1	6.3	5.9	6.7	6.2	19.2
Light-duty truck sales	mil.	1.8	1.8	2.0	2.2	2.0	2.0	11.1

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Passenger cars:								
Total sales	mil.	8.3	9.0	8.9	9.1	9.4	9.1	9.6
Domestic	mil.	6.3	7.1	6.8	7.3	7.5	7.2	14.3
Imported	mil.	2.0	2.0	2.1	1.9	2.1	2.0	.0
Dealers inventories**	mil.	1.3	1.2	1.7	1.5	1.7	1.5	15.4
Factory shipments**	mil.	6.2	7.2	7.5	7.1	7.7	7.4	19.4
Light-duty truck sales	mil.	2.0	2.0	2.1	2.2	2.3	2.2	10.0

* Historical Data **Seasonally not adjusted (1)% over previous year

1.50 GOVERNMENT BUDGETS

(Table 1.50 on page 17)

No essential changes took place in this forecast. The size of the federal budget deficit for fiscal 1983 has been reduced by $1 billion in this forecast when compared with the KEDI's previous projection. A joint committee of the House and Senate recently adopted a 1983 fiscal budget proposal with a deficit of $103.9 billion. The evaluation at this Institute is that it is too optimistic. Our forecast is for $120 billion (slightly changed from $121 billion last month).

KEDI Forecast of the Federal Budget Deficits

(By fiscal year, billions $)

1984 1984	108
1985	78
1986	54

Again, calculations show that even with deficits of this size, THERE WILL NOT BE ENOUGH PRESSURES TO PUSH INTEREST RATES UP. As was pointed out in the last issue, there are surplus funds in the totals for the households, state and local governments, and financial sectors that can help absorb budget deficits without a surge in interest rates. In fact, there will be some room for gradual declines in interest rates. However they still will be at historically high levels.

The updated 1982-85 KEDI forecast of sources and uses of funds is given here, As can be seen in the following table on page 18, in 1982 the net financial needs of businesses will require roughly $77 billion. However, during 1983-85, the projection shows substantial increases in funds available for business financing (providing that Federal needs will decline as indicated). The $25-30 billion yearly gains in funds available to

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1	2	3	4		
Federal govt.:								
Income taxes	bil. $	296.2	299.7	301.5	275.8	280.9	289.5	-2.3
Corporate prof. tax accruals	bil. $	66.0	45.0	46.3	46.9	49.1	46.8	-29.1
Surplus/deficit	bil. $	-62.4	-123.5	-127.1	-147.9	-118.1	-129.2	207.1
State and local governments:								
Income taxes	bil. $	91.9	98.3	101.2	104.6	111.0	103.8	12.9
Corporate prof. tax accruals	bil. $	11.7	8.7	8.1	8.9	10.4	9.1	-22.2
Surplus/deficit	bil. $	36.7	36.3	37.1	36.3	34.2	36.0	-1.2

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Federal govt.:								
Income taxes	bil. $	289.5	301.9	303.8	272.8	286.4	291.2	.6
Corporate prof. tax accruals	bil. $	46.8	51.5	62.3	73.1	78.6	66.3	41.7
Surplus/deficit	bil. $	-129.2	-103.4	-91.4	-114.5	-101.6	-102.9	-20.4
State and local governments:								
Income taxes	bil. $	103.8	114.7	117.0	121.5	124.6	119.4	15.0
Corporate prof. tax accruals	bil. $	9.1	11.2	12.6	14.0	16.5	13.5	48.4
Surplus/deficit	bil. $	36.0	33.8	34.5	35.8	36.4	35.1	-2.5

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Federal govt.:								
Income taxes	bil. $	291.2	303.5	313.8	329.8	343.8	322.7	10.8
Corporate prof. tax accruals	bil. $	66.3	80.4	84.5	90.7	95.4	87.8	32.4
Surplus/deficit	bil. $	-102.9	-98.6	-92.3	-87.5	-80.2	-98.7	-12.8
State and local governments:								
Income taxes	bil. $	119.4	126.3	129.9	132.4	135.1	130.9	9.6
Corporate prof. tax accruals	bil. $	13.5	17.4	19.3	21.5	22.7	20.2	49.6
Surplus/deficit	bil. $	35.1	37.8	39.7	41.5	43.6	40.7	16.0

* Historical Data

(1) % change over previous year

BUDGETS

business from 1983 through 1985 will provide enough room for releaving any upward pressures on interest rates.

Sources and Uses of Funds
(By calendar year, billions $)

Sources	1982	1983	1984	1985
Total funds of households, state and local govts., and finance	237.1	246.9	268.3	281.4
Uses				
Federal government	143.7	124.2	105.3	88.9
Business	77.3	100.8	130.2	158.2
Rest of the World	16.1	21.9	32.8	34.3
Total uses:	237.1	246.9	268.3	281.4

Concerning state and local governments, there has been a small downward adjustment in the projection of business taxes and surpluses.

1.60 INCOME

(Table 1.60 on page 19)

Good signal

Personal income went up in April by 0.7 per cent. That was the best gain since last November. Even more encouraging than that gain is the fact that the increase was mainly due to the change in the personal income's important component: compensation of employees. That is, wages and salaries have risen.

Both indicators (personal income, compensation of employees) point out that the recession is bottoming out. However, they do not indicate that it is over. The developments support the view that the economy will not

TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1	2	3	4		
Personal income	bil. $	2404.1	2511.4	2530.6	2542.3	2568.7	2538.3	5.6
Personal disposable income	bil. $	2016.0	2113.3	2127.9	2161.9	2176.8	2145.0	6.4
Compensation of employees	bil. $	1771.6	1844.7	1853.1	1872.3	1918.5	1872.2	5.7
Corporate after tax profits	bil. $	155.5	118.1	120.0	123.1	131.2	123.1	-20.8
Personal saving	bil. $	107.6	113.8	120.6	140.7	131.6	126.7	17.8
Average weekly earnings	bil. $	316.8	320.5	326.3	334.9	338.4	330.2	4.2

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Personal income	bil. $	2538.3	2618.7	2680.7	2759.6	2820.7	2719.9	7.2
Personal disposable income	bil. $	2145.0	2202.1	2259.9	2365.3	2409.7	2309.2	7.7
Compensation of employees	bil. $	1872.2	1958.2	2001.4	2030.7	2058.2	2012.1	7.5
Corporate after tax profits	bil. $	123.1	140.5	148.7	158.3	165.0	153.1	24.4
Personal saving	bil. $	126.7	129.2	130.3	148.9	146.6	138.8	9.6
Average weekly earnings	bil. $	330.2	343.8	350.2	356.2	361.1	352.8	6.8

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Personal income	bil. $	2719.9	2873.5	2982.4	3056.1	3159.7	3017.9	11.0
Personal disposable income	bil. $	2309.2	2443.7	2538.7	2593.9	2680.8	2564.3	11.0
Compensation of employees	bil. $	2012.1	2102.4	2170.6	2246.3	2296.5	2204.0	9.5
Corporate after tax profits	bil. $	153.1	170.1	172.8	175.4	179.2	174.4	13.8
Personal saving	bil. $	138.8	144.3	140.5	145.7	146.9	144.4	4.0
Average weekly earnings	bil. $	352.8	370.4	376.2	381.1	384.3	378.0	7.1

* Historical Data (1)% change over previous year

"nose dive". At the same time, it does not indicate that we are getting out of the recession right now.

KEDI's projection shows the upward trend in personal disposable income will continue this year and in the following years through 1985. That is not as good as it sounds because price gains will be roughly in line with the income increases. In a nutshell, it will not be until 1985 and the years after that such income will meaningfully increase. A projection is presented.

Real per Capita Personal Disposable Income

(% change over previous year)

1982	-1.4	1984	+.1
1983	-.6	1985	+1.8

1.70 MONEY AND CREDIT

(Table 1.70 on page 21)

The forecast of the basic money supply, M1, has been increased above the Federal Reserve target of 2.5-5.5 per cent growth in 1982. Now, KEDI anticipates a rise of 6.5 per cent this year. Prior to this time, this Institute had not anticipated the level of gains in M1 that took place in May and the first part of June.

Alan C. Lerner of Bankers Trust Co. speculated that M1 could gain at an annual rate near 20 per cent next month. KEDI does not agree that it will be that high.

It is anticipated here that the Federal Reserve will keep relaxing the tight money policy for the next several months until clearer signs of

TABLE 1.70 MONEY AND CREDIT

(Data for "Currency and demand deposits","Time deposits, adjusted,M2", and "Large denomination time deposits" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1981*	1982				1982	%
			1	2	3	4		(1)
Currency and demand deposits	bil. $	427.1	443.5	453.8	461.9	469.7	457.2	7.0
Time deposits, adjusted, M2	bil. $	1723.4	1850.8	1860.4	1871.2	1879.7	1865.6	8.3
Consumer instal. credit	bil. $	333.4	327.1	335.0	342.1	348.5	348.5	4.5
Commerc.&indus. loans at banks	bil. $	360.6	371.5	376.8	381.8	388.9	388.9	7.8
Large denomination time dep.	bil. $	305.5	317.0	324.8	331.5	334.8	334.8	9.6
Mortgages at S & L Assns.	bil. $	518.4	515.1	517.7	520.4	527.8	527.8	1.8

Indicator	Unit	1982	1983				1983	%
			1	2	3	4		(1)
Currency and demand deposits	bil. $	457.2	477.2	483.1	488.9	493.9	485.9	6.3
Time deposits, adjusted, M2	bil. $	1865.6	1925.6	1958.9	1993.4	2025.6	1975.9	5.9
Consumer instal. credit	bil. $	348.5	356.3	361.5	368.7	376.4	376.4	8.1
Commerc.&indus. loans at banks	bil. $	388.9	396.7	405.6	414.5	420.1	420.1	8.0
Large denomination time dep.	bil. $	334.8	338.3	342.6	350.8	359.7	359.7	7.4
Mortgages at S & L Assns.	bil. $	527.8	531.6	537.4	547.8	554.2	554.2	5.0

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Currency and demand deposits	bil. $	485.9	498.4	508.4	519.9	524.4	512.8	5.5
Time deposits, adjusted, M2	bil. $	1975.9	2059.7	2108.6	2164.8	2216.4	2137.4	8.2
Consumer instal. credit	bil. $	376.4	381.2	385.4	393.6	401.5	401.5	6.6
Commerc.&indus. loans at banks	bil. $	420.1	427.1	343.5	444.2	450.7	450.7	7.3
Large denomination time dep.	bil. $	359.7	363.4	371.5	381.6	388.7	388.7	8.1
Mortgages at S & L Assns.	bil. $	554.2	562.3	570.1	581.2	590.4	590.4	6.5

* Historical Data

(1) % change over previous year

recovery emerge. The opinion of Albert Cox of Merrill Lynch Economics is shared: That is, easing money in a recession is not necessarily inappropriate.

Mr. Volcker acknowledged that M1 has grown somewhat faster than the target range, but he did not find it upsetting if it was viewed as reflecting a savings or precautionary motive of a transaction demand. It is likely the Fed will not hastily react to the money supply increase given the recession--a view expressed by David Jones of Aubrey G. Lanston that is shared here.

KEDI's forecast for M2 remains essentially unchanged. There is also no change in the projection of consumer credit, bank loans, and mortgages beyond fractional adjustments.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 23)

The interest rates projections have been slightly increased for this year, but the changes are small. Now, for example, it is forecast here that Treasury bills will be at 12.07 at the end of the year as compared with 11.98 in the May Survey. The prime rate is now seen as being at 15.02 at the end of this year as compared with 14.72 previously.

KEDI maintains the long-term projection that interest rates will slowly decline. This Institute does not agree with the view that such rates will be increasing in the autumn of this year as some are predicting. The view that the combination of U.S. government borrowing and money supply growth means higher interest rates must come is not a view that is adhered to here. Some project Treasury borrowing around $100 billion for the second

TABLE 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES
(Quarterly averages of monthly figures)

Indicator	Unit	1981*	1982				1982	%
			1	2	3	4		(1)
Treasury bills (3 mo) yield	%	14.03	12.81	12.92	13.01	12.78	12.88	-8.2
Prime rate	%	18.87	16.27	16.35	16.04	15.32	16.00	-15.2
Conventional mortgages rate	%	16.52	17.28	17.20	16.91	16.48	16.97	2.7
Aaa corporate bonds rate	%	14.17	15.01	14.67	14.23	13.95	14.47	2.1
20 years Govt. bonds yield	%	13.72	14.27	14.11	13.89	13.74	14.00	-2.0
Standard & Poor's 500 avg.	1941-43=100	128.05	114.25	124.02	127.43	125.89	122.90	-4.0

Indicator	Unit	1982	1983				1983	%
			1	2	3	4		(1)
Treasury bills (3 mo) yield	%	12.88	12.46	12.79	13.16	12.94	12.84	-.1
Prime rate	%	16.00	15.14	15.26	15.43	15.11	15.24	-4.7
Conventional mortgages rate	%	16.97	16.37	15.82	15.36	15.07	15.66	-7.6
Aaa corporate bonds rate	%	14.47	13.74	13.62	13.41	13.68	13.61	-5.9
20 years Govt. bonds yield	%	14.00	13.56	13.42	13.36	13.31	13.41	-4.2
Standard & Poor's 500 avg.	1941-43=100	122.90	126.47	125.26	124.31	126.72	125.69	2.3

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Treasury bills (3 mo) yield	%	12.84	13.11	12.76	12.24	11.98	12.52	-2.5
Prime rate	%	15.24	14.96	14.65	14.13	13.71	14.36	-5.3
Conventional mortgages rate	%	15.66	15.24	15.02	14.87	14.54	14.92	-4.8
Aaa corporate bonds rate	%	13.61	13.75	13.24	12.96	12.73	13.17	-3.2
20 years Govt. bonds yield	%	13.41	13.56	13.42	13.19	13.07	13.31	-.8
Standard & Poor's 500 avg.	1941-43=100	125.69	128.47	129.52	130.74	129.76	129.62	3.1

* Historical Data

(1)% change over previous year

half of this year. KEDI's calculations show that Treasury borrowing will be more in the $80 billion range. Also, business demand in the fall will not be as "strong" as it is currently. The combination will help stabilize interest rates and may even contribute to slight declines.Otto Eckstein of Data Resources expressed the view that private credit demand will lessen in the coming three months. KEDI agrees and sees it as lessening into autumn also.

KEDI's projection of prices of bonds remains pessimistic. As shown in Table 1.80 no significant declines in bond yields are expected during this year. Declines are forecast for 1983. More normal conditions will be reached in 1984 and subsequent years.

The forecast for the stock market has been slightly reduced. For the rest of this year, the Dow Jones Industrials Average is seen as being in the 800-830 bracket. Some improvement to the 850-870 range in 1983 is seen. Standard & Poor's 500 is seen as slightly lower with the range being 123 - 127 in 1983 and 128 - 132 in 1984.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the Gross National Product in current dollars for the year 1981 has been selected for comparison. The actual figure is in Table 1.1 of the Survey of Current Business, No.3, March 1982 (U.S. Department of Commerce, Washington, D.C., monthly). Forecast data are from Business Forecasts 1981 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1981. Some forecasters were unable to catch the December 1980 revision of the Income and Product data, and their forecasts may deviate because of this reason. The following table shows the predictions of forecasters and deviations of forecast data.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

(Gross National Product. Billions current $)

Actual figure: 2925.5

Forecaster	Date of Forecast	Forecast	Page of Business Forecasts 1981	% of Accuracy
A.George Gols, Arthur D.Little	11/80	2788.7	6	-4.7
Albert T.Sommers, The Conference Board	11/20/80	2864.0	8	-2.1
Metropolitan Life	11/30/80	2847.9	10	-2.7
U.S.Trust Company, New York	12/80	2859.0	12	-2.3
United Business Service	12/8/80	2867.0	14	-2.0
Walter D.Fackler, University of Chicago	12/8/80	2868.0	14	-2.0
Peter H.Jedel Cities Service	12/23/80	2848.6	16	-2.6
J.A.Livingston	12/28/80	2835.0	18	-3.1
Peter L.Bernstein	11/1/80	2812.0	20	-3.9
American Statistical Assn. and National Bureau of Economic Research	11/80	2852.5	21	-2.5
AmeriTrust	11/80	2831.0	22	-3.2
Georgia State University	11/80	2851.4	23	-2.5
The First National Bank of Chicago	11/8/80	2831.0	24	-3.2
Manufacturers Hanover Trust	11/12/80	2763.4	25	-5.5
Chemical Bank	11/24/80	2861.0	26	-3.2
UCLA	12/80	2864.1	27	-3.1
Alex A. Burkholder, WGN Continental Broadcasting Co.	12/11/80	2795.4	29	-4.4
Edward S. Hyman, Jr. and Cyrus J. Lawrence, Inc.	12/11/80	2854.0	29	-2.4
Bankers Trust Company	12/10/80	2854.2	30	-2.4
Data Resources, Inc.	12/28/80	2852.0	32	-2.5
KEDI	12/30/80	2895.2	33	-1.0
Fidelity Bank	12/31/80	2872.0	34	-1.8
Morgan Guaranty Trust Company	1/6/81	2920.9	35	-.2
Chase Econometrics	1/7/81	2914.4	36	-.4
Equitable Life Assurance	1/9/81	2883.3	37	-1.4

3.0 HISTORICAL DATA SOURCES

For the reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the historical source. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.), Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly).

Table 3.0 HISTORICAL DATA SOURCES

Table No.	Data Series	Source
1.10 REAL GROWTH	Gross national product, 1972$	SCB, Table 1.2
	Index of industrial production	IIP. page 2
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.20 PRICES AND NOMINAL GNP	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit GNP price deflator	SCB, Table 7.1
	Gross national product	SCB, Table 1.1
	Personal consumption expenditures	SCB, Table 1.1
	Gross private domestic investment	SCB, Table 1.1
1.30 EMPLOYMENT AND LABOR	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employed	SCB, Blue pages
	-Agriculture	SCB, Blue pages
	-Non agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages

(Table 3.00 continues on the following page)

Table 3.0 HISTORICAL DATA SOURCES (Continued)

Table No.	Data Series		Source
1.41 HOUSING	Single-family housing starts		SCB, Blue pages
	Multifamily housing starts		SCB, Blue pages
	Mobile home shipments		SCB, Blue pages
	Permits authorized		SCB, Blue pages
	1-family unit price, new		FRB, Table 2.14
	1-family unit price, existing		FRB, Table 2.14
1.42 AUTOMOBILES	Passenger cars:	Total sales	SCB, Blue pages
		Domestic	SCB, Blue pages
		Imported	SCB, Blue pages
		Dealers inventories	SCB, Blue pages
		Factory shipments	SCB, Blue pages
	Light-duty truck sales		SCB, Blue pages
1.50 FEDERAL AND STATE AND LOCAL BUDGETS	Federal govt.:	Income taxes	SCB, Table 3.2
		Corp.profit tax accr.	SCB, Table 3.2
		Surplus/deficit	SCB, Table 3.2
	State and local governments:	Income taxes	SCB, Table 3.3
		Corp.profit tax accr.	SCB, Table 3.3
		Surplus/deficit	SCB, Table 3.3
1.60 INCOME	Personal income		SCB, Table 2.1
	Personal disposable income		SCB, Table 2.1
	Compensation of employees		SCB, Table 1.11
	Corporate after tax profits		SCB, Table 1.11
	Personal saving		SCB, Table 2.1
	Average weekly earnings		SCB, Blue pages
1.70 MONEY AND CREDIT	Currency and demand deposits, M1		FRB, Table 1.21
	Time deposits, adjusted, M2		FRB, Table 1.21
	Consumer installment credit		FRB, Table 1.56
	Commercial & industrial loans		FRB, Table 1.23
	Large denomination time deposits		FRB, Table 1.21
	Mortgages at S&L Associations		FRB, Table 1.55
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES	Treasury bills (3 mo) yield		FRB, Table 1.10
	Prime rate		FRB, Table 1.33
	Conventional mortgages rate		FRB, Table 1.10
	Aaa corporate bonds rate		FRB, Table 1.35
	20 years Government bonds yield		FRB, Table 1.10
	Standard & Poor's 500 average		FRB, Table 1.36

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8/6/82 U2635-1A

KEDI ECONOMIC SURVEY

AUGUST 1982 ISSUE

**KENT ECONOMIC
AND DEVELOPMENT
INSTITUTE**

P.O. Box 641/Kent, Ohio 44240/U.S.A.

Vol. 8, No. 2, August 1, 1982

KEDI ECONOMIC SURVEY

AUGUST 1982 ISSUE

President: Dr. Vladimir J. Simunek

This updated monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquiries should be directed to: KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, Kent Student Center, KSU Campus, Kent, OH 44242, U.S.A. Kent State University Foundation, Inc., and Kent Economic and Development Institute are not liable for any claim based on deviation of forecast data from actual data. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

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Publication No. 088200744
KEDI August 1, 1982

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This forecast uses the July, 1982, U.S. Department of Commerce revised National Income and Product data. Also used is the June 1982, Board of Governors of the Federal Reserve System release of the Index of Industrial Production, and the latest available data on prices, employment, industrial, and financial developments.

1.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

1.01 EXECUTIVE SUMMARY

It will not be until the last months of the year that some sluggish growth will begin. Very gradual momentum will be gained next year. REAL GROWTH. Recent news is mostly of declines. Still, a flattening is in view. The second quarter gain in GNP was more a mirage than a reality. The second half of the year will post gains in the 3 per cent range over the year-earlier period. PRICES. The forecast is slightly increased with the change in the CPI for this year now seen as 6.6 per cent. Gas and heating oil prices have reached a plateau. EMPLOYMENT. A rare occurence: KEDI agrees with the Administration. High unemployment will be with us for a few more months. The jobless rate is forecast as edging down to 8.8 per cent in the fourth quarter. HOUSING. Starts were down in June, confirming what was discussed in the last issue here that the May gain was not the start of a trend. Existing home sales did pick up. New home sales are not seen as even going over 400,000 until 1984. AUTOMOBILES. The forecast for this year and next is the same with total car sales being off by about 7 per cent from the lousy levels of last year. GOVERNMENT BUDGETS. Washington is coming around to what has been forecast here for some time: deficits are increasing in their forecasts. KEDI maintains the fiscal '83 red ink in the $120 billion range. INCOME. Real personal per capita disposable income will not increase. More declines ahead through 1984. Mainly because of changes in anticipated profits in such areas as steel and oil, the forecast for corporate profits has been somewhat reduced. MONEY AND CREDIT. Events continue to confirm the forecast maintained

EXECUTIVE SUMMARY

here that the Fed would relax a bit. Loan demand will remain strong.

INTEREST RATES AND STOCK MARKET. Developments confirm forecasts made here--rates are moving down. The prime rate is forecast at close to 14 per cent by KEDI by the end of the year. No significant ups or downs of the stock market in 1983 are anticipated.

1.02 OVERVIEW

Recent data on the economy confirm what KEDI has been projecting since last year:

1. There will be some quite sluggish recovery inching toward improvement in the last months of this year. The Administration is finally getting closer to what has been predicted here for some time. Namely, this year will show an overall decline in GNP. First quarter negative moves will outweigh the slight improvement of the latter part of this year. KEDI and Administration forecasts for the last six months of this year are presented here as compared to the last part of 1981.

	KEDI's Forecasts		Administration's Forecasts	
	March '82	July '82	March '82	July '82
Real Growth, 2nd half of 1982	3%	3%	5%	4-4.5%

The report by the Council of Economic Advisers that went to Congress in February of this year pointed to the recession likely being over by the second quarter of 1982. In mid-July, comments from the White House pointed to added caution. References were made to the possibility of interest rates not going down much and the economy being less robust

OVERVIEW

than was foreseen earlier. The recovery that had been hoped for in Washington (but never forecast here as optimistically) is not coming into existence. This has been the first time since the recession began last August that officials have admitted to having to scale down their hopes.

2. Since last year, KEDI has been forecasting general downward moves in interest rates. Still, in relative terms, they will remain at historically high levels. Recent declines in interest rates confirm the calculations here. The forecast remains unchanged: small increments of descent from lofty heights will continue for interest rates. Federal Reserve chairman Paul Volcker confirmed the forecast maintained here that somewhat lowered inflation also points to lower interest rates to come as well.

3. The overview of this Institute's long-term projection is summarized.

	Real Growth	Inflation	Unemployment	Interest Rates
Rest of 1982	sluggish, in last months	below 7%	slight decline at the year-end	small declines
198[illegible]	slow growth	around 7%	slight decline	levelling
1984	more robust growth	around 8%	more decline	increases
1985	slowing down	above 8%	high level persists	return to 1983 levels
1986	resumption of growth	around 9%	decline	increases

1.03 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, no changes took place.

1. In 1986, all U.S. demand for oil should be met. In 1982, it is expected the weighted price of oil will be $33; in 1983 it will go up to $34 per barrel; in 1984, to $37 per barrel; in 1985, to $40 per barrel; and in 1986, to $42 per barrel.
2. It is expected, that the Mid East crisis will continue throughout this year, and more normal economic conditions, including a significant resumption in the area of oil exports, will take place not earlier than in 1984.
3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1982-1986 period. In 1982, some relaxation, and in 1983-1984, tightening is assumed.
4. Increases in state and local taxation in 1982-1986 are anticipated.
5. Our foreign trade with China will gain a substantial momentum in 1982 and following years.
6. In 1982 and 1983 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1984. The years 1984 and 1985 should bring U.S. record crops.
7. It is projected here that the averages rates of growth in 1982-1986 in the major industrial countries will be as follows for real GNP: West Germany 3.4%, Japan 3.6%, Italy 2.4%, Great Britain 2.1%, France 2.8%.
8. No drastic changes in existing international relationships are assumed in this forecast.

ASSUMPTIONS

The August 1982 KEDI forecast is highlighted in Table 1.0 KEDI FORECAST HIGHLIGHTS on page No. 6.

1.10 REAL GROWTH
(Table 1.10 on page 7)

News about developments--and the lack of them--in the economy are confirming the general forecast here that there is no immediate recovery. There is "ho-hum" growth coming in the last months of the year. News still reflects the accent on the negative and the only positive that can be surmized from it is the trend, although hardly heartening, will show some turn-around before the year is over.

Developments

1. The latest Harris survey showed that Americans are still pessimistic about the economy. Fifty-three per cent do not expect the economy to be growing at a good clip in a year. The proportion has remained about the same since last October. Concerning interest rates, 63 per cent do not expect them to sharply decline. The Conference Board's Consumer Confidence Index also edged down in June after small gains in the prior two months. Edward Yardeni of E.F. Hutton & Co. commented that the combination of high interest rates and slowing inflation will damping consumer spending. In his view, consumers are waiting for lower rates. They are not feeling a need now to buy in advance of inflation attacks. KEDI agrees with this view. Late this year consumer spending will perk up a bit.

2. Retail sales were down by 1.5 per cent in June. They had posted a 2.7 per cent gain in May, but that was a distorted month. Leaders of

KEDI FORECAST HIGHLIGHTS

TABLE 1.00

Indicator	Unit	1981	1982	1985	1986
Gross national product	bil. 1972$	1502.6	1480.2	1660.7	1732.1
Index of industrial production	1967=100	151.0	142.2	170.2	177.1
Capacity utilization	%	78.5	70.9	79.4	80.3
Unemployment rate	%	7.6	9.1	7.4	7.0
Private housing starts	%	1.084	1.012	1.678	1.689
Car sales	mil.	8.6	7.8	9.2	9.4
Implicit GNP price deflator	1972=100	195.5	208.0	255.6	274.0
Consumer price index	1967=100	272.4	290.4	361.6	391.6
Producer price index*	1967=100	269.7	280.6	362.4	391.5
Federal deficit	bil.$	-60.0	-127.8	-58.2	-41.3
Personal income	bil.$	2510.5	2555.3	3224.6	3489.0
Prime rate	%	18.87	15.60	12.32	13.59
Mortgage rate	%	16.52	16.50	12.32	13.59
Currency plus demand deposits	bil.$	427.1	457.0	537.7	572.1
Commercial and industrial loans	bil.$	360.6	389.6	482.9	521.0

* Finished goods

TABLE 1.10 REAL GROWTH

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982 1	 2	 3	 4	1982	% (1)
Gross national product,1972$	bil. 1972 $	1502.6	1470.7	1476.8	1482.5	1490.8	1480.2	-1.5
Index of industrial product.	1967=100	151.0	141.8	139.4	142.1	145.6	142.2	-5.8
Unemployment rate	%	7.6	8.8	9.5	9.2	8.8	9.1	19.0
Capacity utilization rate	%	78.5	71.7	70.1	70.3	71.4	70.9	-9.7
Private housing starts	mil. units	1.084	.919	.958	1.080	1.088	1.012	-6.4
Car sales	mil. units	8.6	8.3	7.5	7.7	7.8	7.8	-9.3

Indicator	Unit	1982	1983 1	 2	 3	 4	1983	% (1)
Gross national product,1972$	bil. 1972 $	1480.2	1506.4	1520.6	1534.8	1552.7	1528.6	3.2
Index of industrial product.	1967=100	142.2	148.7	151.3	154.9	157.3	153.1	7.7
Unemployment rate	%	9.1	8.6	8.3	7.9	7.8	8.2	-10.0
Capacity utilization rate	%	70.9	72.4	74.5	75.3	75.7	74.5	5.1
Private housing starts	mil. units	1.012	1.157	1.436	1.532	1.528	1.413	39.6
Car sales	mil. units	7.8	8.0	7.8	8.1	8.0	8.0	2.6

Indicator	Unit	1983	1984 1	 2	 3	 4	1984	% (1)
Gross national product,1972$	bil. 1972 $	1528.6	1569.4	1584.3	1604.7	1622.9	1595.3	4.4
Index of industrial product.	1967=100	153.1	160.4	163.2	166.5	167.7	164.5	5.7
Unemployment rate	%	8.2	7.6	7.5	7.2	7.2	7.4	-9.2
Capacity utilization rate	%	74.5	77.1	78.3	79.1	79.6	78.5	5.4
Private housing starts	mil. units	1.413	1.527	1.554	1.618	1.581	1.570	11.1
Car sales	mil. units	8.0	8.6	8.7	9.0	9.1	8.9	11.3

REAL GROWTH

lareg retail chains commented that the first hint of recovery may be a slight one in the back-to-school season. An analyst at Merrill Lynch, Pierce, Fenner & Smith referred to an expected recovery led by consumers that will come in the second half. However, it may be later in that time period rather than earlier. KEDI agrees.

3. Machine tool orders were 60 per cent lower this June than last. However, they were 21 per cent above the May level.

4. Housing starts dipped back down again in June after having been held up by government contributions to multi-family homes in May. In both May and June sales of homes increased--there was hardly any other direction to go. The sales of single-family homes rose roughly 13 per cent in May, but that was still 19 per cent lower than the year-earlier level. Resales of single-family homes edged up in June. Such sales were, however, about 27 per cent lower this June than last.

5. Automakers reported that sales in mid-July were off by almost 18 per cent.

6. Coal demand is flattening. Producers do not see the boom there that they used to see. Industry forecast have been lowered there.

7. The pessimism in the steel industry persists. The chairman of U.S. Steel said no relief is in sight, but the long-term outlook is better. New orders have been on the light side this summer. Inventory liquidations continue while some firms take extra-long vacation schedules. (Those inventories will have to be built up sometime in the not-so-far away future, and that will add a spark to the weary industry.)

8. In late July, spending figures for construction were released for the month of May. Here there was a bit of gain.

REAL GROWTH

9. There was some gain in GNP in the second quarter but it was more of an illusion than anything of substance. The 1.7 per cent annual rate increase was mostly due to the slowdown in inventories declines and the buildup of stocks of unsold cars. Capital spending (the basis of long-term expension) showed a decline. By this measure, recovery is not yet in sight.

The substance of developments this July has shown more negative news than positive without doubt. Still, putting that in the perspective of what has occurred this year and looking at the forecast data provides the view that has been maintained for many months--rigorless recovery toward the end of the year and gaining momentum next year. Second half gains are still projected in the 3 per cent area.

1.20 PRICES

(Table 1.20 on page 10)

KEDI's forecast is increased:

	July Forecast	August Forecast
Consumer Price Index for 1982 over 1981	+6%	+6.6%

The basic reason for the change is that KEDI has increased the projected data for gasoline and heating oil, and meat for 1982. This Institute expects: (a) Prices of gasoline and heating oil reached the plateau in July and will not be increasing significantly throughout the rest of the year. Slow, constant increases are expected in 1983. (b) Meat prices will continue to climb till the end of this year and

TABLE 1.20 PRICES AND NOMINAL GNP

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982 1	2	3	4	1982	% (1)
Consumer price index, n.s.a.	1967=100	272.4	283.6	287.3	292.6	297.9	290.4	6.6
Producer price index, n.s.a.**	1967=100	269.7	277.2	278.2	281.2	285.6	280.6	4.0
Implicit GNP price deflator	1972=100	195.5	203.6	206.3	209.0	212.9	208.0	6.4
Gross national product	bil.$	2937.7	2995.5	3047.4	3099.0	3174.2	3079.0	4.8
Personal consump. expend.	bil.$	1843.2	1919.4	1950.8	1985.2	2014.3	1967.4	6.7
Gross private dom. investment	bil.$	471.5	414.8	448.8	462.4	478.9	451.2	-4.4

Indicator	Unit	1982	1983 1	2	3	4	1983	% (1)
Consumer price index, n.s.a.	1967=100	290.4	302.0	307.4	313.8	318.2	310.4	6.8
Producer price index, n.s.a.**	1967=100	280.6	291.0	298.6	305.3	309.7	301.2	7.3
Implicit GNP price deflator	1972=100	208.0	215.6	219.2	223.1	227.2	221.3	6.4
Gross national product	bil.$	3079.0	3248.1	3332.9	3424.4	3528.4	3383.4	9.9
Personal consump. expend.	bil.$	1967.4	2056.2	2114.8	2192.6	2250.4	2153.5	9.5
Gross private dom. investment	bil.$	451.2	487.4	499.6	511.3	519.7	504.5	11.8

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Consumer price index, n.s.a.	1967=100	310.4	323.7	330.4	338.8	345.4	334.5	7.8
Producer price index, n.s.a.**	1967=100	301.2	313.4	321.3	330.8	342.6	327.0	8.5
Implicit GNP price deflator	1972=100	221.3	232.4	236.3	241.5	245.3	238.9	8.0
Gross national product	bil.$	3383.4	3647.1	3743.9	3875.5	3981.3	3811.9	12.7
Personal consump. expend.	bil.$	2153.5	2330.4	2386.7	2452.3	2504.8	2418.4	12.3
Gross private dom. investment	bil.$	504.5	530.2	554.3	573.1	590.2	562.0	11.3

PRICES

level in 1983. (c) Constant gains in medical-care costs are projected for the rest of 1982, and for 1983-1986. (d) Other leaders in price increases in the 1982-1983 period are transportation and entertainment. (e) KEDI's projection for prices of vegetables, fruit, cereals, and other grain products, and for apparel, shoes, and appliances shows only slight rises in 1982-1983.

Producer Prices: KEDI's projection for price increases of metals, raw materials, and other basic commodities shows that these are bottoming out. However, more significant increases in prices of basic commodities are not expected before 1983.

1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 12)

The forecast for unemployment rates remains essentially unchanged. KEDI expects that the summer unemployment rates represent the peak. In the Fall, a slowly declining trend will begin.

The decline will be slow because: (1) In KEDI's projection, factory orders will be picking up more significantly in the fourth quarter of 1982. Hence, higher employment must wait until the orders will go up. (2) KEDI also predicts that consumers' demand will not rise more significantly before late this year.

This Institute agrees with the view of the Administration in this particular area. That is, there is agreement that high rates of joblessness will be here for a few more months at least. Chase Econometrics forecasts the unemployment rate at about 9.6 per cent in the

TABLE 1.30 EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	%
			1	2	3	4		(1)
Population	mil.	225.9	228.0	229.2	230.4	231.4	229.6	1.6
Civilian labor force	mil.	108.7	109.1	110.2	110.9	111.8	110.5	1.7
Employment	mil.	100.5	99.6	99.7	100.7	101.9	100.5	.1
Agriculture	mil.	3.4	3.4	3.4	3.3	3.3	3.4	.0
Non agricult.	mil.	97.1	96.2	96.3	97.4	98.6	97.1	.0
Unemployment rate	%	7.62	8.77	9.46	9.23	8.84	9.07	19.0

Indicator	Unit	1982	1983				1983	%
			1	2	3	4		(1)
Population	mil.	229.6	231.5	232.2	232.9	233.4	232.5	1.3
Civilian labor force	mil.	110.5	112.6	113.8	114.9	115.8	114.3	3.3
Employment	mil.	100.5	102.8	104.4	105.8	106.7	104.9	4.4
Agriculture	mil.	3.4	3.3	3.4	3.3	3.4	3.4	.0
Non agricult.	mil.	97.1	99.5	101.0	102.5	103.3	101.5	4.5
Unemployment rate	%	9.07	8.62	8.25	7.90	7.81	8.15	-10.0

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Population	mil.	232.5	234.5	235.2	236.0	236.9	235.7	1.4
Civilian labor force	mil.	114.3	117.0	117.9	118.8	120.1	118.5	3.7
Employment	mil.	104.9	108.0	109.0	110.2	111.5	109.7	4.6
Agriculture	mil.	3.4	3.3	3.3	3.4	3.4	3.4	.0
Non agricult.	mil.	101.5	104.7	105.7	106.8	108.1	106.3	4.7
Unemployment rate	%	8.15	7.64	7.52	7.23	7.19	7.46	-9.2

present quarter. KEDI agrees. However, by the end of this year, the rate is seen as 8.8 per cent whereas Chase has a more optimistic figure of 8.5 for the last quarter.

There is some good news in that the average weekly hours worked were the same in June as in May--39.1 hours. Average factory overtime went up a tad to 2.4 from 2.3 hours between May and June. KEDI's projection in these two areas is presented.

Year/Quarter	Average weekly hours in manufacturing	Average factory overtime
1982:2	39.2	2.3
1982:3	39.3	2.4
1982:4	39.3	2.5
1983:1	39.5	2.4
1983:2	39.8	2.5

1.41 HOUSING

(Table 1.41 on page 14)

Housing starts declined in June when compared with May housing starts. It demonstrates that the May increase was only temporary as KEDI outlined in the last issue. KEDI's projection for housing starts remains basically unchanged. Forecast data for years 1984 - 1986 have been slightly reduced.

Some better news. Sales of existing homes were up 2.6 per cent in June from May. However, they were off 27.2 per cent from June 1981. Sales of new homes were also up a bit. June sales of new homes gained 4.3 per cent below June 1981. KEDI's forecast remains far from

TABLE 1.41 HOUSING

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	%
			1	2	3	4		(1)
Single-family housing starts	mil.	.706	.586	.603	.652	.641	.621	-12.0
Multifamily housing starts	mil.	.379	.333	.355	.428	.447	.391	3.2
Mobile home shipments	mil.	.241	.238	.251	.265	.274	.257	6.7
Permits authorized	mil.	.969	.832	.924	.067	1.006	.932	-3.8
1-family unit** price, new	tho.$	83.1	82.0	84.8	85.9	87.3	85.0	2.3
1-family unit** price,existing	tho.$	78.0	79.3	80.9	81.7	83.1	81.1	3.4

Indicator	Unit	1982	1983				1983	%
			1	2	3	4		(1)
Single-family housing starts	mil.	.621	.694	.852	.873	.885	.826	33.0
Multifamily housing starts	mil.	.391	.463	.584	.659	.643	.587	50.1
Mobile home shipments	mil.	.257	.295	.309	.342	.358	.326	26.9
Permits authorized	mil.	.932	1.084	1.235	1.386	1.362	1.267	35.9
1-family unit** price, new	tho.$	85.0	88.6	89.2	90.6	91.8	90.1	6.0
1-family unit** price,existing	tho.$	81.1	83.4	85.1	85.7	87.2	85.4	5.3

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Single-family housing starts	mil.	.826	.843	.859	.935	.919	.889	4.3
Multifamily housing starts	mil.	.587	.684	.695	.683	.662	.681	6.9
Mobile home shipments	mil.	.326	.324	.342	.365	.348	.344	5.5
Permits authorized	mil.	1.267	1.305	1.427	1.496	1.509	1.434	13.1
1-family unit** price, new	tho.$	90.1	93.4	95.2	96.7	98.9	96.1	6.7
1-family unit** price,existing	tho.$	85.4	88.3	89.4	91.3	93.4	90.6	6.1

HOUSING

optimistic in the near future.

Sales of Single-family Homes
(Thousand units, seasonally adjusted)

	New	Existing
1982	387	1972
1983	396	2034
1984	412	2251
1985	398	2024
1986	439	2307

As mentioned in Section 1.70, housing won't pick up much until mortgage rates recesd significantly. In KEDI's forecast that will happen not earlier than in 1985.

1.42 AUTOMOBILES

(Table 1.42 on page 16)

The forecast for this year and next remains essentially unchanged as the June and July downturns in car sales were anticipated here. (See Table 1.42) The projection for 1984 through 1986 has been reduced slightly.

The projection here for auto sales for the rest of the year is pessimistic. The third quarter will barely show any pick up. Some small gains will occur in the last quarter of this year. At that time, it is anticipated that interest rates will be a bit lower and automakers will launch new incentive programs.

TABLE 1.42 AUTOMOBILES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	%
			1	2	3	4		(1)
Passenger cars								
Total sales	mil.	8.6	8.3	7.5	7.7	7.8	7.8	-9.3
Domestic	mil.	6.3	6.0	5.5	5.9	6.0	5.8	-8.0
Imported	mil.	2.3	2.3	2.0	1.8	1.8	2.0	-13.0
Dealers inventories**	mil.	1.5	1.1	1.2	1.3	1.6	1.3	-13.3
Factory shipments**	mil.	6.3	4.1	4.9	5.0	5.8	5.0	-20.6
Light-duty truck sales	mil.	1.6	1.9	1.7	1.7	1.8	1.8	12.5

Indicator	Unit	1982	1983				1983	%
			1	2	3	4		(1)
Passenger cars								
Total sales	mil.	7.8	8.0	7.8	8.1	8.0	8.0	2.6
Domestic	mil.	5.8	6.2	6.0	6.2	6.3	6.2	6.9
Imported	mil.	2.0	1.8	1.8	1.9	1.7	1.8	-10.0
Dealers inventories**	mil.	1.3	1.6	1.4	1.4	1.5	1.5	15.4
Factory shipments**	mil.	5.0	5.9	6.0	5.4	6.4	5.9	18.0
Light-duty truck sales	mil.	1.8	1.7	1.9	2.1	1.9	1.9	5.6

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Passenger cars								
Total sales	mil.	8.0	8.6	8.7	9.0	9.1	8.9	11.3
Domestic	mil.	6.2	6.8	6.8	7.2	7.2	7.0	12.9
Imported	mil.	1.8	1.8	1.9	1.8	1.9	1.9	5.6
Dealers inventories**	mil.	1.5	1.4	1.5	1.4	1.5	1.5	.0
Factory shipments**	mil.	5.9	6.7	6.7	6.8	7.3	6.9	16.9
Light-duty truck sales	mil.	1.9	2.0	2.1	2.2	2.3	2.2	15.8

*Historical data (1) % change over previous year **Seas. not adjusted

AUTOMOBILES

Auto Crisis

Mid-July auto sales were off by 17.9 per cent and reached the lowest level of the past 24 years. So far this year, U.S. automakers total deliveries were off by 11.8 per cent from the depressed levels in the same period a year ago. KEDI expects that automakers will significantly reduce their production plans for the third and fourth quarters of this year.

A study by the National Academy of Engineers found fault with management of the auto industry and pointed to the need for vast changes. Due to lower labor costs and higher productivity, the cost of producing a Japanese car is $750-1,500 lower than that of a U.S. auto, so Japanese cars sold here have higher profit margins. One future possibility the Academy outlined was U.S. companies moving much of their production abroad.

1.50 BUDGETS

(Table 1.50 on page 18)

In the previous issue, KEDI anticipated the deficit of the federal budget for fiscal 1983 in the amount of $120 billion as opposed to the adopted proposal of 103.9. Now the Administration is moving closer to the figures that have been used here. In late July the Treasury Secretary moved the deficit estimate up to the $110-114 area--billions, of course. The director of the Congressional Budget Office

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982 1	2	3	4	1982	% (1)
Federal govt.:								
Income taxes	bil.$	298.1	299.9	302.4	277.2	282.4	290.5	-2.5
Corporate prof. tax accruals	bil.$	67.3	45.6	43.2	44.4	50.1	45.8	-31.9
Surplus/deficit	bil.$	-60.0	-119.3	-126.5	-145.6	-119.9	-127.8	-213.0
State and local governments:								
Income taxes	bil.$	88.6	93.6	95.1	97.3	99.6	96.4	8.8
Corporate prof. tax accruals	bil.$	10.1	10.1	9.2	9.4	9.6	9.6	-5.0
Surplus/deficit	bil.$	31.7	27.7	28.5	29.4	29.1	28.7	-9.5

Indicator	Unit	1982	1983 1	2	3	4	1983	% (1)
Federal govt.:								
Income taxes	bil.$	290.5	303.5	305.9	277.4	290.5	294.3	1.3
Corporate prof. tax accruals	bil.$	45.8	55.3	60.8	65.8	70.4	63.1	37.7
Surplus/deficit	bil.$	-127.8	-104.3	--92.6	-117.3	-104.6	-104.7	-18.1
State and local governments:								
Income taxes	bil.$	96.4	104.1	107.6	108.5	109.8	108.0	12.3
Corporate prof. tax accruals	bil.$	9.6	10.4	11.5	12.7	14.1	12.2	27.0
Surplus/deficit	bil.$	28.7	29.0	29.4	29.8	30.1	29.6	3.1

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Federal govt.:								
Income taxes	bil.$	294.3	305.6	315.8	332.6	346.7	325.1	10.5
Corporate prof. tax accruals	bil.$	63.1	74.3	78.7	84.7	87.3	81.3	28.8
Surplus/deficit	bil.$	-104.7	-99.2	-93.5	-88.4	-81.5	-90.7	-13.4
State and local governments:								
Income taxes	bil.$	108.0	113.2	115.4	118.3	120.1	116.8	8.1
Corporate prof. tax accruals	bil.$	12.2	15.4	15.5	16.1	17.9	16.2	32.8
Surplus/deficit	bil.$	29.6	31.4	31.8	32.4	33.0	32.2	8.7

*Historical data (1) % change over previous year

BUDGETS

predicted a flood of red ink of $140-160 billion annually for the next three years. That is seen here, as just too big. Things are not that bad.

Taxes. The Senate approved a $99 billion increase in taxes spread over three years and spending cuts of about $17.5 billion. It is too early to predict the outcome in the House and in the final figures. Last year, in the autumn, KEDI built into its forecast a $20-30 billion a year increase in taxation which would mainly come from business and indirect taxes. That upper limit approaches over $90 billion for three fiscal years which is within the ballpark of the amount approved by the Senate. CONSEQUENTLY, if the Senate version is adopted, it will have no ESSENTIAL EFFECTS on projections here.

The fiscal year deficits projected here remain the same: (in $ billions)

1983	120
1984	108
1985	78
1986	54

The Administration, in its recent projection, is coming closer to KEDI's figures. Now, it projects: $95 billion deficit in fiscal 1984, and $74 billion deficit in fiscal 1985.

The projected trends in state and local budgets remain essentially unchanged when compared with the previous forecast. Actual and forecast data have been adjusted to correspond with the July 20, 1982 Department of Commerce benchmark revision of National Income and Product data.

1.60 INCOME

(Table 1.60 on page 21)

The forecast and historical data on Income and components in Table 1.60 on the following page reflect the recent benchmark revision of National Income and Product Data by the Department of Commerce. The main revisions concern the following:

In billions $

	Old data for 1981	New data for 1981
Personal Income	2404.1	2415.7
Personal Disposable Income	2016.0	2029.1
Corporate After Tax Profits	155.5	150.9
Personal Saving	107.6	130.2

This forecast, based on the new, revised data does not show significant differences in growth rates when compared with the previous July forecast for Personal Income and components.

There is a slight difference in corporate profits. Their projection has been revised downwards mainly due to the downward revision of expected profits in steel, oil, paper, and chemicals industries.

Calculations show that personal per capita real disposable income will decline in 1982, 1983, and 1984. The first increases are expected to take place not earlier than in 1985. (At least declines will cease around that time.)

Average weekly earnings of production workers in manufacturing have been revised upwards for 1982 and 1983. However, more significant wage increases are expected not earlier than in 1984.

TABLE 1.60 INCOME

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982 1	1982 2	1982 3	1982 4	1982	% (1)
Personal income	bil.$	2415.8	2510.5	2549.5	2562.1	2588.4	2555.3	5.8
Personal disposable income	bil.$	2029.1	2117.1	2151.9	2187.6	2206.4	2165.8	6.7
Compensation of employees	bil.$	1767.6	1819.9	1830.8	1865.4	1918.2	1856.8	5.0
Corporate after tax profits	bil.$	150.9	115.9	116.2	121.1	130.4	121.0	-19.8
Personal saving	bil.$	130.2	139.1	142.0	162.4	154.3	149.5	14.8
Average weekly earnings	$	316.8	320.5	326.5	335.6	339.2	330.5	4.3

Indicator	Unit	1982	1983 1	1983 2	1983 3	1983 4	1983	% (1)
Personal income	bil.$	2555.3	2617.5	2679.5	2758.4	2819.5	2718.7	6.4
Personal disposable income	bil.$	2165.8	2209.9	2266.0	2372.5	2419.2	2316.9	7.0
Compensation of employees	bil.$	1856.8	1941.3	1985.2	2013.9	2046.5	1996.7	7.5
Corporate after tax profits	bil.$	121.0	135.7	143.6	154.7	160.2	148.6	22.8
Personal saving	bil.$	149.5	150.1	143.2	162.1	156.6	153.0	2.3
Average weekly earnings	$	330.5	344.9	350.1	356.4	361.4	353.2	6.9

Indicator	Unit	1983	1984 1	1984 2	1984 3	1984 4	1984	% (1)
Personal income	bil.$	2718.7	2858.4	2963.3	3037.2	3128.5	2996.8	10.2
Personal disposable income	bil.$	2316.9	2439.6	2532.0	2586.3	2661.7	2554.9	10.2
Compensation of employees	bil.$	1996.7	2086.3	2156.2	2230.4	2283.2	2189.0	9.6
Corporate after tax profits	bil.$	148.6	163.4	167.5	172.3	176.7	170.0	14.4
Personal saving	bil.$	153.0	158.2	164.3	163.1	164.5	162.5	6.2
Average weekly earnings	$	353.2	370.2	376.0	381.4	384.6	378.1	7.0

1.70 MONEY AND CREDIT

(Table 1.70 on page 23)

Since 1980, KEDI has advocated and assumed some relaxation of the Fed's monetary and credit policies and declines in interest rates that would accompany such relaxation. (See Assumption No.3.) Recent events continue to confirm the projections that have been maintained here.

Federal Reserve Chairman Paul Volcker lowered the discount rate. He also indicated that money growth at the top of the target range and even somewhat above would be tolerated temporarily if the economy needs it.

The Federal Reserve has eased in its policy. The June drop in M1 gave them justification to relax the credit grip. KEDI maintains the view that Fed policy will continue to ease this year and will tighten again in 1983.

Fed figures on business loan demand showed it remained strong. Commercial and industrial loans on bank books went up to a record $208 billion at the end of June. KEDI's forecast for such loans remains the same. The projection here shows that demand for loans by businesses will remain strong and will go up an average of 8.0 per cent this year, 7.9 in 1983 and 7.3 per cent in 1984.

Consumer credit will continue to increase significantly. Recent data confirm that view. Such credit increased by $1.4 billion in May. Net credit rose by 1.8 per cent.

TABLE 1.70 MONEY AND CREDIT

(Data for "Currency and demand deposits, M1", "Time deposits, adjusted, M2", and large denomination time deposits" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1981*	1982				1982	%
			1	2	3	4		(1)
Currency and demand deposits,M1	bil.$	427.1	448.0	453.7	459.4	466.7	457.0	7.0
Time deposits, adjusted,M2	bil.$	1723.4	1851.1	1872.3	1881.6	1886.8	1873.0	8.6
Consumer instal. credit	bil.$	333.4	327.1	336.2	344.3	349.7	349.7	4.9
Commerc.& indus. loans at banks	bil.$	360.6	371.9	377.2	382.3	389.6	389.6	8.0
Large denomination time dep.	bil.$	305.5	317.1	324.3	331.2	334.7	334.7	9.6
Mortgages at S & L Assns.	bil.$	518.4	515.1	517.2	520.1	527.4	527.4	1.7

Indicator	Unit	1982	1983				1983	%
			1	2	3	4		(1)
Currency and demand deposits,M1	bil.$	457.0	474.3	480.2	485.6	489.2	482.3	5.5
Time deposits, adjusted, M2	bil.$	1873.0	1926.7	1959.4	1994.8	2027.8	1977.2	5.6
Consumer instal. credit	bil.$	349.7	355.4	360.3	366.5	374.2	374.2	7.0
Commerc.& indus. loans at banks	bil.$	389.6	396.9	405.7	414.6	420.4	420.4	7.9
Large denomination time dep.	bil.$	334.7	338.5	342.9	351.6	360.8	360.8	7.8
Mortgages at S & L Assns.	bil.$	527.4	531.1	537.0	547.2	553.9	553.9	5.0

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Currency and demand deposits,M1	bil.$	482.3	494.5	504.3	511.7	520.7	507.8	5.3
Time deposits, adjusted,M2	bil.$	1977.2	2061.7	2110.4	2165.7	2219.3	2139.3	8.2
Consumer instal. credit	bil.$	374.2	380.1	384.3	392.8	400.1	400.1	6.9
Commerc.& indus. loans at banks	bil.$	420.4	427.3	343.7	444.5	450.9	450.9	7.[illegible]
Large denomination time dep.	bil $	360.8	363.5	371.7	381.8	389.2	389.2	7.9
Mortgages at S & L Assns.	bil.$	553.9	562.1	569.9	580.3	589.1	589.1	6.4

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 25)

The assumption of gradual declines in interest rates is again being confirmed. In late July two leading banks dropped their prime lending rates to 15.5 per cent.That is the lowest rate in twenty months. KEDI expects further declines in the near future.

The chairman of the Bank of America, Leland Prussia indicated that other banks would follow the move to 15.5.According to his view the rate could be in the 11 or 12 per cent area by the end of this year. KEDI does not have quite that cheerful a view. Norman Robertson of Pittsburgh's Mellon Bank sees that rate might be in the 14.5 per cent range by early fall. This Institute expects the rate to be closer to 14 per cent by the end of this year.

The opinion of a spokesman for the National Association of Realtors is shared here. Housing will not recover and the consumer will not get into the housing market much until the mortgage rate is in the 12 or 13 per cent range. However, such a level is not seen in the near future by KEDI.

The forecast of the stock market remains about the same. No significant ups or downs are anticipated in the 1982-84 period. The Dow Jones Industrials will be in the 800-830 range during the rest of this year and in the 850-870 area next year. Standard & Poor's will be in the 122-126 range during the remainder of 1982 and in the 124-128 area in 1983.

TABLE 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES
(Quarterly averages of monthly figures)

Indicator	Unit	1981*	1982 1	2	3	4	1982	% (1)
Treasury bills (3 mo) yield	%	14.03	12.81	12.48	12.36	12.20	12.46	-11.1
Prime rate	%	18.87	16.27	16.50	15.27	14.36	15.60	-17.3
Conventional mortgages rate	%	16.52	17.10	16.54	16.29	16.10	16.50	-.1
Aaa corporate bonds rate	%	14.17	15.01	14.27	13.94	13.69	14.23	.4
20 years Govt. bonds yield	%	13.72	14.27	13.72	13.75	13.91	13.91	1.4
Standard & Poor's 500 avg.	1941-43=100	128.05	114.25	118.14	122.65	124.14	119.80	-6.4

Indicator	Unit	1982	1983 1	2	3	4	1983	% (1)
Treasury bills (3 mo) yield	%	12.46	12.27	12.69	13.04	12.72	12.68	1.8
Prime rate	%	15.60	14.09	14.14	14.21	14.08	14.13	-9.4
Conventional mortgages rate	%	16.50	15.97	15.63	15.14	14.97	15.43	-6.5
Aaa corporate bonds rate	%	14.23	13.24	13.15	13.22	13.36	13.24	-7.1
20 years Govt. bonds yield	%	13.91	13.72	13.65	13.47	13.52	13.59	-2.3
Standard & Poor's 500 avg.	1941-43=100	119.80	125.17	124.32	123.15	125.49	124.53	3.9

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Treasury bills (3 mo) yield	%	12.68	12.56	12.78	12.21	11.83	12.35	-2.6
Prime rate	%	14.13	14.90	14.59	14.03	13.56	14.27	-5.7
Conventional mortgages rate	%	15.43	14.71	14.53	14.81	14.87	14.73	-4.5
Aaa corporate bonds rate	%	13.24	13.47	13.33	13.01	12.86	13.34	-.5
20 years Govt. bonds yield	%	13.59	13.63	13.74	13.61	13.68	13.67	-.5
Standard & Poor's 500 avg.	1941-43=100	124.53	121.32	123.47	125.72	127.84	124 59	[illegible]

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the Personal Income for the year 1981 (before the July 1982 revision) had been selected for comparison. The actual figure is in Table 2.1 of the Survey of Current Business, No.3, March 1982 (U.S. Department of Commerce, Washington, D.C., monthly). Forecast data are from Business Forecasts 1981 (Federal Reserve Bank of Richmond, Virginia, February 1981). Some forecasters were unable to catch the December 1980 revision of the Income and Product data, and their forecasts may deviate because of this reason. The following table shows the predictions of forecasters and deviations of forecast data.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

(Personal Income, bill. curr.$)

Actual figure: 2404.1

Forecaster	Date of Forecast	Forecast	Page of Business Forecasts 1981	% of Accuracy
Georgia State University	11/80	2341.6	23	-2.6
The First National Bank of Chicago	11/8/80	2347.0	24	-2.4
Manufacturers Hanover Trust	11/12/80	2272.9	25	-5.5
UCLA	12/80	2355.1	27	-2.0
Standard & Poor's Corporation	12/11/80	2376.0	31	-1.2
Data Resources	28/12/80	2362.0	32	-1.8
KEDI	30/12/80	2383.5	33	-.8
Fidelity Bank	31/12/80	2389.8	34	-.6
Morgan Guaranty	1/6/81	2399.1	35	-.2
Chase Econometrics	1/7/81	2398.1	36	-.2

3.0 HISTORICAL DATA SOURCES

For the reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the historical source. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.), Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly).

Table 3.0 HISTORICAL DATA SOURCES

Table No.	Data Series	Source
1.10 REAL GROWTH	Gross national product, 1972$	SCB, Table 1.2
	Index of industrial production	IIP, page 2
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.20 PRICES AND NOMINAL GNP	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit GNP price deflator	SCB, Table 7.1
	Gross national product	SCB, Table 1.1
	Personal consumption expenditures	SCB, Table 1.1
	Gross private domestic investment	SCB, Table 1.1
1.30 EMPLOYMENT AND LABOR	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employed	SCB, Blue pages
	-Agriculture	SCB, Blue pages
	-Non agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages

(Table 3.00 continues on the following page)

Table 3.0 HISTORICAL DATA SOURCES (Continued)

Table No.	Data Series	Source
1.41 HOUSING	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 AUTOMOBILES	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 FEDERAL AND STATE AND LOCAL BUDGETS	Federal govt.: Income taxes	SCB, Table 3.2
	Corp.profit tax accr.	SCB, Table 3.2
	Surplus/deficit	SCB, Table 3.2
	State and local governments: Income taxes	SCB, Table 3.3
	Corp.profit tax accr.	SCB, Table 3.3
	Surplus/deficit	SCB, Table 3.3
1.60 INCOME	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 MONEY AND CREDIT	Currency and demand deposits, M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.56
	Commercial & industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.55
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES	Treasury bills (3 mo) yield	FRB, Table 1.10
	Prime rate	FRB, Table 1.33
	Conventional mortgages rate	FRB, Table 1.10
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years Government bonds yield	FRB, Table 1.10
	Standard & Poor's 500 average	FRB, Table 1.36

9/13/82 U2635-1 a

KEDI ECONOMIC SURVEY

SEPTEMBER 1982 ISSUE

KENT ECONOMIC
AND DEVELOPMENT
INSTITUTE

P.O. Box 641/Kent, Ohio 44240/U.S.A.

Vol. 8, No. 3, September 1, 1982

KEDI ECONOMIC SURVEY

SEPTEMBER 1982 ISSUE

President: Dr. Vladimir J. Simunek

This updated monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquiries should be directed to: KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, Kent Student Center, KSU Campus, Kent, OH 44242, U.S.A. Kent State University Foundation, Inc., and Kent Economic and Development Institute are not liable for any claim based on deviation of forecast data from actual data. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

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Publication No. 098200754
KEDI September 1, 1982

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KENT ECONOMIC AND
DEVELOPMENT INSTITUTE September 1, 1982

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This forecast uses the August, 1982, U.S. Department of Commerce revised National Income and Product data. Also used is the August 1982, Board of Governors of the Federal Reserve System release of the Index of Industrial Production, and the latest available data on prices, employment, industrial, and financial developments.

1.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

Late August interest rate developments fit in with the general forecast maintained here since last year, but the size of the most recent drop leads to a revised forecast. Fourth quarter growth is seen now a bit better than previously forecasted. Gradual strengthening of the economy will take place next year. REAL GROWTH. The news continues to be mixed, and declines are smaller than they have been, and some aspects of the economy are leveling as had been forecast here. PRICES. The price forecast remains essentially unchanged. Inflation is leveling now. It will accelerate to the end of the year and throughout 1983. EMPLOYMENT. KEDI sees 1982 as ending up with 9.1 unemployment rate. It will edge down in 1983. HOUSING. Starts jumped ahead, but that was not the start of a trend. The outlook remains cloudy. AUTOMOBILES. Detroit provides no good news which is no surprise. Sad to say, the U.S.A. will not return to being a world auto leader. GOVERNMENT BUDGETS. The tax increases (following, not very slowly, July tax cuts) approved by Congress had been anticipated here. Even with them, the deficit will still be close to $100 billion in fiscal 1984. INCOME. The forecast is barely altered. Real per capita disposable income will continue to decline this year and next. MONEY AND CREDIT. Growth of money supply will continue above the targets set up by Fed. Tight money and credit policy will resume in 1983. INTEREST RATES AND STOCK MARKET. In the coming months, interest rates will level off and increase a bit by the end of the year. No more spectacular gains in stock market prices are expected in the near future.

1.02 OVERVIEW

The forecast maintained here for most of this year is still the same: general flatness in the midsection of the year with a near balance between some gains and losses. The last quarter of this year should show some growth.

1. The recovery will begin by the end of this year. It will be slow. Increasingly economists are expressing a view that this Institute shares: a lackluster rebound with features not typical of past rebounds. KEDI agrees with Mr. Markowski of Sterling Grade & Co. that real growth in spending for plant and equipment will not occur until the middle or third quarter of next year.

2. Interest rates declines are bottoming. Frankly, they went down a bit more than had been forecast here for the last few months. The reason is that the economy is weak and the policy of the Federal Reserve and of the Administration add more to their decline than had been expected. The size of Federal deficits have not led to the rates gaining as others had anticipated.

3. Assumptions about Federal Reserve policy, maintained by KEDI since the beginning of 1981, remain unchanged: relaxation in the second half of 1982 and tightening in 1983.

4. The outlook for 1983. KEDI maintains its forecast: (a) Slow growth, (b) High interest rates by historical standards, (c) High unemployment, although a bit lower than in 1982, (d) Inflation in the 7 per cent range, (e) Tight Federal Reserve policy.

5. International outlook. In 1983, the U.S. will lead slow recovery. Nothing spectacular in industrialized countries and very slow progress in developing countries will be the norm.

1.03 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, no changes took place.

1. In 1986, all U.S. demand for oil should be met. In 1983, it is expected the weighted price of oil will be $34 per barrel; in 1984 it will go up to $37 per barrel; in 1985, to $40 per barrel, and in 1986, to $42 per barrel.
2. It is expected that the Mid-east crisis will continue throughout this year and more normal economic conditions including a significant resumption in the area of oil exports, will take place not earlier than in 1984.
3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1982-1986 period. In the second half of 1982 some relaxation, and in 1983 tightening is expected.
4. Increases in state and local taxation in 1982-1986 are anticipated.
5. Our foreign trade with China will gain a substantial momentum in 1982 and following years.
6. In 1982 and 1983 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1984, and U.S. record crops in 1984-86.
7. Average rates of growth in 1982-1986 in the major industrial countries: West Germany 3.4%, Japan 3.6%, Italy 2.4%, Great Britain 2.1%, France 2.8%.
8. No drastic changes in international relationships are assumed.

The September 1982 KEDI forecast is highlighted in Table 1.0 on page 4.

KEDI FORECAST HIGHLIGHTS

TABLE 1.00

Indicator	Unit	1981	1982	1985	1986
Gross national product	bil. 1972$	1502.6	1479.6	1663.3	1736.5
Index of industrial production	1967=100	151.0	141.8	169.4	175.3
Capacity utilization	%	78.5	70.7	79.8	80.6
Unemployment rate	%	7.6	9.4	7.5	7.2
Private housing starts	%	1.084	1.088	1.686	1.724
Car sales	mil.	8.6	7.7	8.9	8.9
Implicit GNP price deflator	1972=100	195.5	208.0	263.3	285.2
Consumer price index	1967=100	272.4	290.8	363.3	397.5
Producer price index*	1967=100	269.7	280.5	364.8	398.9
Federal deficit	bil.$	-60.0	-124.5	-65.7	-52.4
Personal income	bil.$	2415.8	2555.5	3228.5	3495.8
Prime rate	%	18.87	15.08	12.61	13.27
Mortgage rate	%	16.52	16.34	13.06	13.62
Currency plus demand deposits	bil.$	427.1	456.4	539.2	579.8
Commercial and industrial loans	bil.$	360.6	389.4	484.6	529.2

---

* Finished goods

1.10 REAL GROWTH

(Table 1.10 on page 6)

Recent data confirm the forecast maintained here that the economy in the middle two quarters of this year would be fairly flat. The last quarter of this year is seen as showing a gain so that the last six months of 1982 end up showing growth in GNP of close to 3 per cent. Some momentum will be gained in 1983.

Most of the news points to the continuation of problems.

1. The survey in July of buying agents showed more of the same as new orders were not improving. The decline in inventory levels has been going on almost every month for close to three years. (This can be regarded as bringing us closer to some gains as supplies get too trimmed and need some replenishing.)

2. Industrial production was off by only an adjusted 0.1 per cent in July. However, it would have been more except for the temporary pick-up in car production.

3. Although not regarded here as a very reliable tool in forecasting, it is worth mentioning that the lack of change in the leading economic indicators also is another way of saying the doldrums continue. The index was at 127.9 of its 1967 average both in May and in June.

4. Steel production went down again in the third week of August. Production was at 40.5 per cent of capacity. So far this year, the making of steel has gone down by about 37 per cent as compared to last year.

5. Auto production and industrial production will both record more declines in August according to early indicators.

TABLE 1.10 REAL GROWTH

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1	2	3	4		
Gross national product,1972$	bil. 1972 $	1502.6	1470.7	1475.3	1482.1	1490.2	1479.6	-1.5
Index of industrial product.	1967=100	151.0	141.6	139.2	141.0	145.2	141.8	-6.1
Unemployment rate	%	7.6	8.8	9.5	9.9	9.3	9.4	22.7
Capacity utilization rate	%	78.5	71.6	70.3	70.1	70.8	70.7	-10.0
Private housing starts	mil. units	1.084	.919	.958	1.065	1.089	1.008	-7.0
Car sales	mil. units	8.6	8.3	7.5	7.3	7.7	7.7	-10.0

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Gross national product,1972$	bil. 1972 $	1479.6	1506.1	1520.8	1535.3	1554.6	1529.1	3.3
Index of industrial product.	1967=100	141.8	147.2	150.9	154.8	157.0	152.7	7.7
Unemployment rate	%	9.4	8.7	8.5	8.1	7.9	8.3	-8.5
Capacity utilization rate	%	70.7	71.9	73.2	74.6	75.3	73.8	4.4
Private housing starts	mil. units	1.008	1.135	1.431	1.716	1.740	1.505	49.3
Car sales	mil. units	7.7	8.0	7.7	8.1	8.0	8.0	3.9

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Gross national product,1972$	bil. 1972 $	1529.1	1570.8	1586.7	1607.2	1625.3	1597.5	4.5
Index of industrial product.	1967=100	152.7	160.3	163.4	166.9	168.0	164.7	7.9
Unemployment rate	%	8.3	7.7	7.5	7.3	7.2	7.4	-10.4
Capacity utilization rate	%	73.8	77.0	77.9	78.5	79.1	78.1	5.4
Private housing starts	mil. units	1.505	1.722	1.856	1.832	1.706	1.772	17.7
Car sales	mil. units	8.0	8.3	8.5	8.7	8.8	8.6	7.5

REAL GROWTH

There has been some encouraging news.

1. New construction gained by 1.3 per cent during June. That was the fourth month of increases. Although home building was down, it was balanced by gains in construction of plants and offices.
2. Although starts of single-family units were down in July, multifamily buildings jumped ahead aided by government subsidized apartment building.
3. Factory shipments managed to edge upward in June by 0.6 per cent. They also moved ahead in May.

There is mixed news from the agricultural area. Bumper grain crops are predicted for the autumn. For farmers, the coming bulging horn of plenty is no reason to rejoice in the good earth as the depressed grain prices put them deeper in debt and cut even more deeply into supporting stores, makers of farm machinery and suppliers of seed, fertilizer, etc. Only those involved in storage of the huge grain surpluses to come will profit.

Essentially, the news adds up to what has been expected here: mixed developments. The last quarter will show improvement. KEDI expects better performance in nonresidential construction, iron ore and nonferrous metal ores mining, chemicals, paper, nonelectrical machinery, plastics, and food industries.

More robust and balanced growth in the majority of U.S. industries is projected for 1983 and the following years.

1.20 PRICES

(Table 1.20 on page 9)

KEDI's forecast of price developments has been increased slightly. The new forecast sees the CPI gain of 6.8 per cent as compared with the 6.6 per cent forecasted last month.

In July, prices went up by .6 per cent and preliminary data for August show a modest increase again. Acceleration in price increases is expected to take place in the last quarter of this year. Main increases are expected in prices of medical services, transportation, houses, rents, electricity, drugs, and natural gas. Prices of gasoline and heating oil are expected to remain stable throughout most of the rest of this year. Some increases are expected to take place to the end of 1982.

In the long-term forecast, the percentage changes in the Consumer Price Index from one year to the next are projected:

1982 over 1981	6.8%
1983 over 1982	7.1%
1984 over 1983	8.0%
1985 over 1984	7.9%
1986 over 1985	8.3%

As to producer prices, there were four months when they did not not change, so the June-to-July increase of 1.2 per cent is not viewed as anything to cause worry. More substantial increases are expected to take place in 1983, mainly for prices of raw materials.

TABLE 1.20 PRICES AND NOMINAL GNP

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1	2	3	4		
Consumer price index,n.s.a.	1967=100	272.4	283.6	287.4	293.9	298.4	290.8	6.8
Producer price index,n.s.a.**	1967=100	269.7	277.2	278.2	281.0	285.4	280.5	4.0
Implicit GNP price deflator	1972=100	195.5	203.6	206.1	209.0	213.2	208.0	6.4
Gross national product	bil.$	2937.7	2995.5	3041.2	3097.6	3177.1	3077.9	4.8
Personal consump.expend.	bil.$	1843.2	1919.4	1945.8	1982.7	2013.6	1965.4	6.6
Gross private dom.investment	bil.$	471.5	414.8	447.0	461.5	476.2	449.9	-4.6

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Consumer price index,n.s.a.	1967=100	290.8	303.2	308.6	314.0	319.7	311.4	7.1
Producer price index,n.s.a.**	1967=100	280.5	291.1	298.8	305.6	310.8	301.6	7.5
Implicit GNP price deflator	1972=100	208.0	216.3	220.9	224.3	228.7	222.6	7.0
Gross national product	bil$	3077.9	3257.7	3359.4	3443.7	3555.4	3404.0	10.6
Personal consump.expend.	bil.$	1965.4	2057.0	2116.2	2194.3	2253.2	2155.3	9.7
Gross private dom.investment	bil.$	449.9	487.9	503.2	514.7	524.5	507.6	12.8

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Consumer price index,n.s.a.	1967=100	311.4	324.9	331.8	340.5	247.6	336.2	8.0
Producer price index,n.s.a.**	1967=100	301.6	314.5	323.2	332.7	344.8	328.8	9.0
Implicit GNP price deflator	1972=100	222.6	233.8	238.6	244.5	249.9	241.7	8.6
Gross national product	bil.$	3404.0	3672.5	3785.9	3929.6	4061.6	3862.4	13.5
Personal consump.expend.	bil.$	2155.3	2334.8	2389.6	2456.8	2507.9	2422.3	12.4
Gross private dom.investment	bil.$	507.6	536.7	558.9	578.7	596.5	567.7	11.8

*Historical data (1) % change over previous year **Finished goods

1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 11)

The forecast of the unemployment rate for 1982 and 1983 is increased here. It had been anticipated by KEDI that joblessness would reach 9.6 per cent in July. Actual figure was 9.8 per cent. The forecast has been increased from 9.25 per cent to 9.89 per cent for the third quarter of 1982, and from 8.84 per cent to 9.26 per cent for the last quarter of this year. The forecast for 1983 has been increased only marginally.

Economists are divided as to the future of the unemployment rate. Robert Gough of Data Resources pointed to a rate of 10 per cent or more. Joel Popkin sees the rate as being 10.2 in September.

On the other hand, Donald Straszheim of Wharton Econometrics feels the rate has already reached its peak. The Administration was saying that they did not see that rate as reaching 10 per cent.

At this Institute, the rate is now seen as unlikely going above 10 per cent by more than a small fraction. In the fourth quarter, it will begin to go down.

The long-term forecast by KEDI is summarized here:

Unemployment Rate
(% of civilian labor force)

1982	9.3
1983	8.3
1984	7.4
1985	7.2
1986	7.3

TABLE 1.30 EMPLOYMENT AND LABOR

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1	2	3	4		
Population	mil.	225.9	228.0	229.2	230.4	231.4	229.6	1.6
Civilian labor force	mil.	108.7	109.1	110.2	110.9	111.8	110.5	1.7
Employment	mil.	100.5	99.5	99.8	99.9	101.4	100.2	-.3
Agriculture	mil.	3.4	3.4	3.4	3.3	3.3	3.4	.0
Non agricult.	mil.	97.1	96.1	96.4	97.6	98.1	96.8	-.3
Unemployment rate	%	7.62	8.77	9.46	9.89	9.26	9.35	22.7

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Population	mil.	229.6	231.5	232.2	232.9	233.4	232.5	1.3
Civilian labor force	mil.	110.5	112.6	113.8	114.9	115.8	114.3	3.3
Employment	mil.	100.2	102.8	104.1	105.6	106.7	104.8	4.6
Agriculture	mil.	3.4	3.3	3.4	3.3	3.4	3.4	.0
Non agricult.	mil.	96.8	99.5	100.7	102.3	103.3	101.4	4.7
Unemployment rate	%	9.35	8.74	8.52	8.09	7.86	8.30	-8.5

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Population	mil.	232.5	234.5	235.2	236.0	236.9	235.7	1.4
Civilian labor force	mil.	114.3	117.0	117.9	118.8	120.1	118.5	3.7
Employment	mil.	104.8	108.0	109.0	110.2	111.4	109.6	4.6
Agriculture	mil.	3.4	3.3	3.3	3.4	3.4	3.4	.0
Non agricult.	mil.	101.4	104.7	105.7	106.8	108.0	106.2	4.7
Unemployment rate	%	8.30	7.73	7.54	7.28	7.22	7.44	-10.4

*Historical data (1) % change over previous year

1.41 HOUSING

(Table 1.41 on page 13)

Good news: Housing starts bounded ahead in July. They were up by 33.7 per cent. Moderating that jump is the fact that the gain is largely temporary due to the influx of government money in July to subsidize multifamily units.

Actually, single-family units DECLINED. The rate of 614,000 in July was under the adjusted annual rate of 616,000 in June. Neither of those rates would warm the hearts of builders. Significant improvement in the housing industry is far from being in sight.

The forecast here remains essentially the same. KEDI agrees with Michael Sumichrast of the National Association of Home Builders in that housing sales will be weak for a few years. The prohibitive interest rates are keeping most people out of the market.

In 1983, KEDI expects some improvement. A total of 1.3 million units are expected to be built. That would be about 30 per cent above the total calculated for this year. Still, it would be under the average the industry sees as needed to supply housing needs--if interest rates were capable of being paid by the typical home buyer.

A survey by a San Francisco bank found that 70 per cent of potential home buyers are not in the market because they see unemployment as a possibility. Growth in 1983 of the economy should bring some of that group a better sense of security and a few into the market again.

TABLE 1.41 HOUSING

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982 1	2	3	4	1982	% (1)
Single-family housing starts	mil.	.706	.586	.603	.620	.637	.611	-14.5
Multifamily housing starts	mil.	.379	.333	.355	.445	.452	.396	4.5
Mobile home shipments	mil.	.241	.238	.246	.259	.262	.251	4.1
Permits authorized	mil.	.969	.832	.924	.962	1.008	.932	-4.7
1-family unit** price, new	tho.$	83.1	80.7	86.2	90.4	94.5	88.0	5.9
1-family unit** price,existing	tho.$	78.0	79.2	80.4	82.6	85.4	81.9	5.0

Indicator	Unit	1982	1983 1	2	3	4	1983	% (1)
Single-family housing starts	mil.	.611	.676	.847	.858	.870	.813	33.1
Multifamily housing starts	mil.	.396	.459	.584	.647	.632	.580	46.5
Mobile home shipments	mil.	.251	.287	.301	.324	.350	.316	25.9
Permits authorized	mil.	.932	1.081	1.226	1.363	1.347	1.254	34.5
1-family unit** price, new	mil.	88.0	97.5	99.3	101.5	103.2	100.4	14.1
1-family unit** price,existing	tho.$	81.9	87.8	90.2	93.2	95.7	91.7	12.0

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Single-family housing starts	mil.	.813	.840	.861	.928	.916	.886	9.0
Multifamily housing starts	mil.	.580	.662	.665	.670	.650	.662	14.1
Mobile home shipments	mil.	.316	.317	.345	.360	.343	.341	7.9
Permits authorized	mil.	1.245	1.300	1.419	1.487	1.492	1.425	13.6
1-family unit** price, new	tho.$	100.4	105.6	108.1	111.3	113.8	109.7	9.3
1-family unit** price,existing	tho.$	91.7	98.4	101.5	103.4	105.6	102.2	11.5

*Historical data (1) % change over previous year **Not seas. adjusted

1.42 AUTOMOBILES

(Table 1.42 on page 15)

The forecast by KEDI remains quite bleak. Recent data confirm the continued gloom. In early August, U.S. built cars were selling at a rate 27 per cent below the comparable rate for last year. In the first 10 days of August car sales were down to 112.4 thousand from about 153.5 thousand in 1981. (And last year was depressed also.) Because of lagging auto sales, GM extended plant closings by one-to-two weeks for new model changeover closings. Auto production toward the end of August picked up but it was mostly due to plants re-opening after a break for equipment changes. Car building was still 4.4 per cent lower than a year ago which was depressing by itself.

The long-term outlook is still pessimistic as this Institute. For example, the long-term outlook in 1990 shows 9.4 million cars sold in this country.

Leaders in the auto industry are now publicly admitting that the United States will never achieve the dominance in the world auto field that it once had in the "good old days." U.S. output last year was 82 per cent of total Japanese motor vehicle production according to Donald E. Petersen, the president of Ford.

Contributing to the problem has been a lack of consistency in reading consumer trends. Just as auto makers are finishing their switch to making small cars, more people have started buying larger, more expensive models.

TABLE 1.42 AUTOMOBILES

(Unless otherwise stated, quarterly data are
seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1	2	3	4		
Passenger cars								
Total sales	mil.	8.6	8.3	7.5	7.3	7.7	7.7	-10.0
Domestic	mil.	6.3	6.0	5.5	5.6	6.0	5.8	-7.9
Imported	mil.	2.3	2.3	2.0	1.7	1.7	1.9	-17.4
Dealers inventories**	mil.	1.5	1.1	1.2	1.4	1.7	1.4	-6.7
Factory shipments	mil.	6.3	4.1	4.9	4.7	5.6	4.8	-13.7
Light-duty truck sales	mil.	1.6	1.9	1.7	1.7	1.8	1.8	12.5

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Passenger cars								
Total sales	mil.	7.7	8.0	7.7	8.1	8.0	8.0	3.9
Domestic	mil.	5.8	6.2	5.9	6.2	6.3	6.2	6.9
Imported	mil.	1.9	1.8	1.8	1.9	1.7	1.8	-5.3
Dealers inventories**	mil.	1.4	1.7	1.4	1.4	1.5	1.5	7.1
Factory shipments	mil.	4.8	5.8	5.9	5.4	6.3	5.8	20.8
Light-duty truck sales	mil.	1.8	1.7	1.9	2.0	1.9	1.9	5.6

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Passenger cars								
Total sales	mil.	8.0	8.3	8.5	8.7	8.8	8.6	7.5
Domestic	mil.	6.2	6.6	6.7	7.0	7.2	6.9	11.3
Imported	mil.	1.8	1.7	1.8	1.7	1.6	1.7	-5.6
Dealers inventories**	mil.	1.5	1.4	1.5	1.4	1.5	1.5	.0
Factory shipments	mil.	5.8	6.4	6.5	6.6	7.0	6.6	13.8
Light-duty truck sales	mil.	1.9	2.0	2.1	2.2	2.3	2.2	15.8

*Historical data (1) % change over previous year **Seas. not adjusted

1.50 BUDGETS

(Table 1.50 on page 17)

The forecast here is only slightly different from previous ones. (What the government giveth away, the government can taketh back--and will.) Since the latter part of 1981, KEDI has had $90 billion incorporated into its projection as an estimate of the total tax package. That is close to the $98.3 billion recently approved by Congress.

The forecast shows that even with this tax increase, no balancing of the Federal budget will be achieved. For instance, for fiscal 1983, the new deficit forecast is only about 5 per cent less than what was calculated for the August Survey. Comparative projections are given here.

Fiscal Year Projections
(In billions $)

	Administration	Congressional Budget Office	KEDI August	KEDI September
1982	109	*	110	110
1983	115	$141 - 151	120	114
1984	92	*	108	98
1985	84	*	78	69

* Not available

Calculations of the impact of lower Federal deficits on interest rates show that the result will be insignificant. As was stated in issues earlier this summer, projected high surpluses in Households, Banking, and State and Local Governments sectors will compensate the Federal Government and the Rest of the World sectors' deficits. High Federal deficits do not, therefore, directly mean higher interest rates. The outlook for state and local budgets is unchanged.

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*		1982			1982	% (1)
			1	2	3	4		
Federal govt.:								
Income taxes	bil.$	298.1	299.9	303.6	278.9	283.5	291.5	-2.2
Corporate prof. tax accruals	bil.$	67.3	45.6	43.7	44.2	50.6	46.0	-31.6
Surplus/deficit	bil.$	-60.0	-119.3	-122.4	-138.5	-117.8	-124.6	207.6
State and local governments:								
Income taxes	bil.$	88.6	93.6	95.4	97.8	100.1	96.7	9.1
Corporate prof. tax accruals	bil.$	10.1	10.1	10.0	10.2	11.1	10.4	3.0
Surplus/deficit	bil.$	31.7	27.7	32.3	33.1	32.8	31.7	.0

Indicator	Unit	1982		1983			1983	% (1)
			1	2	3	4		
Federal govt.:								
Income taxes	bil.$	291.5	304.0	307.5	281.5	294.3	296.8	1.8
Corporate prof. tax accruals	bil.$	46.0	55.9	62.4	68.7	73.5	65.1	41.5
Surplus/deficit	bil.$	-124.6	-103.8	-94.5	-119.6	-102.4	-105.1	-21.0
State and local governments:								
Income taxes	bil.$	96.7	104.8	108.7	109.3	110.9	108.4	33.7
Corporate prof. tax accruals	bil.$	10.4	12.3	13.6	14.0	15.1	13.9	25.0
Surplus/deficit	bil.$	31.7	34.3	35.6	37.2	36.4	35.9	13.2

Indicator	Unit	1983		1984			1984	% (1)
			1	2	3	4		
Federal govt.:								
Income taxes	bil.$	296.8	308.4	319.6	334.2	350.8	328.3	10.6
Corporate prof. tax accruals	bil.$	65.1	76.8	81.4	87.9	92.4	84.6	30.0
Surplus/deficit	bil.$	-105.6	-97.5	-94.2	-86.5	-79.3	-89.4	-14.9
State and local governments:								
Income taxes	bil.$	108.4	113.8	115.9	120.7	123.5	118.4	9.2
Corporate prof. tax accruals	bil.$	13.9	15.2	15.8	16.4	17.2	16.2	16.5
Surplus/deficit	bil.$	35.9	35.7	35.9	36.4	37.2	36.3	1.1

*Historical data (1) % change over previous year

1.60 INCOME

(Table 1.60 on page 19)

The forecast for personal income and components shows only minor adjustments.

The projection of real per capita disposable income reflects a decline of 1.8 per cent for 1982 as compared to 1981. In 1983, it will decline again by 1.0 per cent. During 1984 there will be more of a plateau reached and a very small gain of roughly 0.2 per cent is seen at this time. After that, there will be some real growth--small as it may be. The gain in 1985 over 1984 is seen as 0.9 per cent, and in 1986 growth of 1.1 per cent is anticipated by KEDI.

The declining standard of living has been confirmed by recent Census Bureau reports. Real family income went down by 3.5 per cent in 1981. It had gone down by 5.5 per cent in 1980. The typical family in 1981 had a median income of $22,390. Adjusted for inflation, after-tax income was 12 per cent lower than it was in 1972, according to the Tax Foundation, even though median income about doubled in 10 years.

The forecast of corporate after tax profits also remains unchanged. KEDI expectsslight improvements throughout the rest of the year, mainly due to increases in profits or smaller losses in construction, food and kindred products, utilities, nonelectrical machinery, chemicals, railroads, and lumber industries. There are no downward revisions in corporate after tax profits due to the recently approved $98.3 billion tax package, because this measure was anticipated in all KEDI's monthly Surveys since the autumn of 1981.

TABLE 1.60 INCOME

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	%
			1	2	3	4		(1)
Personal income	bil.$	2415.8	2510.5	2553.5	2566.7	2591.3	2555.5	5.8
Personal disposable income	bil.$	2029.1	2117.1	2154.5	2190.0	2207.7	2167.3	6.8
Compensation of employees	bil.$	1767.6	1819.9	1850.6	1872.3	1927.5	1867.6	5.7
Corporate after tax profits	bil.$	150.9	115.9	115.0	120.8	129.7	120.4	-21.2
Personal saving	bil.$	130.2	139.1	149.4	163.1	155.4	151.8	16.6
Average weekly earnings	$	316.8	320.5	328.7	337.8	343.1	332.5	5.0

Indicator	Unit	1982	1983				1983	%
			1	2	3	4		(1)
Personal income	bil.$	2555.5	2623.2	2684.7	2761.3	2823.2	2723.3	6.6
Personal disposable income	bil.$	2167.3	2214.9	2268.5	2370.5	2418.2	2318.0	7.0
Compensation of employees	bil.$	1867.6	1947.5	1991.4	2017.8	2052.8	2002.4	7.2
Corporate after tax profits	bil.$	120.4	135.4	141.7	150.9	157.5	146.4	21.6
Personal saving	bil.$	151.8	151.2	146.8	165.3	155.7	154.8	2.0
Average weekly earnings	$	332.5	347.8	355.2	361.5	366.5	357.8	7.6

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Personal income	bil.$	2723.3	2866.7	2969.8	3044.5	3136.8	3004.4	10.3
Personal disposable income	bil.$	2318.0	2444.5	2534.3	2589.5	2662.5	2557.7	10.3
Compensation of employees	bil.$	2002.4	2092.4	2162.7	2238.9	2290.5	2196.1	9.7
Corporate after tax profits	bil.$	146.4	158.5	162.7	166.4	171.9	164.9	12.6
Personal saving	bil.$	154.8	156.3	160.2	163.8	165.2	161.4	4.3
Average weekly earnings	$	357.8	373.7	379.4	384.6	389.7	381.9	6.7

*Historical data (1) % change over previous year

1.70 MONEY AND CREDIT

(Table 1.70 on page 21)

The recent relaxation in the Federal Reserve monetary and credit policy corresponds with KEDI's assumptions, adopted and maintained since 1981. Treasury Under Secretary, Beryl Sprinkel spoke of people being convinced that inflation is really down. The Federal Reserve Board itself had helped curtail it with its downward pressures on the growth of the money supply.

The Federal Reserve maintains that recent large doses of reserves fed into the banking system were consistent with money-growth targets. According to the Fed, the money supply did not "bulge" as expected after the July tax cut so they have been able to add reserves without putting upward pressure on the inflation rate. KEDI's projection corresponds with that view. The relaxation of monetary and credit policies, in KEDI's forecast, does not have a very significant effect on future increases in price levels. KEDI expects that the Fed will keep relaxing its policies until the end of this year and resume a more rigid position in 1983.

The forecast data for consumer credit, commercial and industrial loans, mortgages and other credit market instruments have been slightly increased mainly due to the impact of projected lower interest rates.

The main increases are shown for commercial and industrial loans. KEDI anticipates that the demand for these loans will go up by approximately 8 per cent when compared with the previous year and will remain strong in 1983 and 1984.

TABLE 1.70 MONEY AND CREDIT

(Data for "Currency and demand deposits, M1", "Time deposits, adjusted, M2", and "Large denomination time deposits" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1981*	1982				1982	%
			1	2	3	4		(1)
Currency and demand deposits, M1	bil.$	427.1	448.0	452.6	458.7	466.3	456.4	6.9
Time deposits, adjusted, M2	bil.$	1723.4	1851.1	1889.5	1908.7	1929.6	1892.2	9.8
Consumer instal. credit	bil.$	333.4	327.1	336.9	345.2	351.4	351.4	5.4
Commerc. & indus. loans at banks	bil.$	360.6	371.9	377.2	382.1	389.4	389.4	8.0
Large denomination time dep.	bil.$	305.5	317.1	324.3	331.0	334.1	334.1	9.4
Mortgages at S & L Assns.	bil.$	518.4	515.1	517.2	520.6	528.5	528.5	1.9

Indicator	Unit	1982	1983				1983	%
			1	2	3	4		(1)
Currency and demand deposits, M1	bil.$	456.4	474.8	481.6	486.9	491.5	483.7	6.0
Time deposits, adjusted, M2	bil.$	1892.2	1948.5	1988.5	2023.9	2068.6	2007.4	6.1
Consumer instal. credit	bil.$	351.4	356.8	361.4	368.9	377.5	377.5	7.4
Commerc. & indus. loans at banks	bil.$	389.4	396.7	405.9	415.0	420.9	420.9	8.1
Large denomination time dep.	bil.$	334.1	337.2	341.5	349.3	358.7	358.7	7.4
Mortgages at S & L Assns.	bil.$	528.5	532.8	539.6	550.3	559.7	559.7	5.9

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Currency and demand deposits, M1	bil.$	483.7	484.7	508.2	515.9	526.6	508.9	5.3
Time deposits, adjusted, M2	bil.$	2007.4	2098.9	2149.3	2207.8	2259.8	2179.0	8.5
Consumer instal. credit	bil.$	377.5	388.6	390.2	399.4	409.6	409.6	8.5
Commerc. & indus. loans at banks	bil.$	420.9	427.5	443.9	444.6	451.4	451.4	7.2
Large denomination time dep.	bil $	358.7	360.2	369.8	378.6	385.4	385.4	7.4
Mortgages at S & L Assns.	bil.$	559.7	566.7	574.3	586.2	597.8	597.8	10.7

*Historical data (1) % change over previous year

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 23)

Since 1981, KEDI has included as part of its forecasts, declining interest rates in 1982. Recent declines correspond with that general projected trend. However, the most recent drop during the last week of August brought the rates lower than had been expected here. To call a spade a spade,this is a pleasant revision to make.

The general decline in interest rates is in line with Federal Reserve policy. At the same time, it reflects the weakness of the economy. Still, no further dramatic decreases in the rates are expected. For the short-term, the forecast here has been slightly lowered. The prime rate in the fourth quarter is now expected to average 13 per cent. The end-of-the-year rate is seen as likely being 12 per cent but possibly as low as 11.5 per cent. The long-term prediction at this Institute for the years 1982-1986 show the prime rate not going below 10 per cent in terms of monthly or quarterly averages. The view at Data Resources that the prime rate will still still be in double digits a year from now is shared here. The forecasts of economists differ widely. A *Newsweek* survey (August 30, 1982, page 19) showed the projections for the prime rate at the end of the year for six forecasters had a range of 5.5 percentage points. Paul Trevor of Trevor Stewart Burton & Jacobson sees the rate as being 10 per cent at the year end. Arnold Moskowitz of Dean Witter Reynolds forecasts the rate at 13, and Marc Goloven of Manufaturers Hanover Trust looks to a 15.5 per cent prime rate.

The forecast of the stock market performance has been revised upwards due to the recent strength there brought on in part by the

TABLE 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Quarterly averages of monthly figures)

Indicator	Unit	1981*	1982 1	2	3	4	1982	% (1)
Treasury bills (3 mo) yield	%	14.03	12.81	12.48	11.01	10.62	12.73	-9.3
Prime rate	%	18.87	16.27	16.50	14.66	12.88	15.08	-20.0
Conventional mortgages rate	%	16.52	17.10	16.54	16.21	15.49	16.34	-1.0
Aaa corporate bonds rate	%	14.17	15.01	14.52	13.65	12.80	14.00	-1.1
20 years Govt. bonds yield	%	13.72	14.27	13.72	13.42	13.75	13.79	.5
Standard & Poor's 500 avg.	1941-43=100	128.05	114.25	114.12	117.84	123.26	117.37	-8.3

Indicator	Unit	1982	1983 1	2	3	4	1983	% (1)
Treasury bills (3 mo) yield	%	12.73	10.04	10.16	10.85	11.65	10.68	-6.1
Prime rate	%	15.08	11.74	11.85	12.06	12.57	12.06	-20.0
Conventional mortgages rate	%	16.34	15.42	14.97	14.67	14.34	14.85	-9.2
Aaa corporate bonds rate	%	14.00	12.42	11.89	11.94	11.98	12.06	-13.9
20 years Govt. bonds yield	%	13.79	13.65	13.54	13.27	13.16	13.41	-2.8
Standard & Poor's 500 avg.	1941-43=100	117.37	124.25	123.87	122.26	125.18	123.89	5.6

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Treasury bills (3 mo) yield	%	10.68	11.07	11.14	11.84	12.53	11.65	9.1
Prime rate	%	12.06	12.45	11.85	11.24	12.75	12.07	.0
Conventional mortgages rate	%	14.85	14.03	13.72	13.04	13.27	13.52	-9.0
Aaa corporate bonds rate	%	12.06	12.67	12.24	12.03	12.85	12.45	3.
20 years Govt. bonds yield	%	13.41	13.24	13.56	13.84	13.72	13.59	1.
Standard & Poor's 500 avg.	1941-43=100	123.89	120.45	122.67	128.34	123.51	123.74	.

*Historical data (1) % change over previous year

interest rates decline that was a bit more than had been anticipated here. It is not expected here that there will be any additional spectacular gains in the Dow Jones Industrials or Standard & Poor's 500 Average.

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the Residential Construction Expenditures in current dollars for the year 1981 (before the July 1982 revision), have been selected for comparison. The actual figure is in Table 1.1 of the Survey of Current Business, No.3, March 1982 (U.S.Department of Commerce, Washington, D.C., monthly). Forecast data are from Business Forecasts 1981 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1981). Some forecasters were unable to catch the December 1980 revision of the Income and Product data, and their forecasts may deviate because of this reason. The following table shows the predictions of forecasters and deviations of forecast data.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

(Residential Construction, billions of current $)

Actual figure: 105.5

Forecaster	Date of Forecast	Forecast	Page of Business Forecasts 1981	% of Accuracy
United California Bank	10/80	120.0	6	+13.7
A.George Gols,Arthur D. Little	11/80	93.6	6	-11.2
Albert T.Sommers, The Conference Board	11/20/80	103.0	8	-2.4
Metropolitan Life	12/80	105.0	10	-.5
National Securities and Research Corporation	12/80	108.0	10	+2.4
U.S.Trust Company of New York	12/80	120.3	12	+14.0
Calvin R. Myers, The Merchants National Bank of Aurora	12/5/80	107.0	12	+1.4
United Business Service	12/8/80	127.0	14	+20.4
Walter D. Fackler, University of Chicago	12/8/80	114.0	14	+8.1
Georgia State University	11/80	112.8	23	+6.9
The First National Bank of Chicago	11/8/80	109.0	24	+3.3
Manufacturers Hanover Trust	12/11/80	114.5	25	+8.5
UCLA	12/80	113.4	27	+7.5
Bankers Trust Company	12/10/80	100.2	30	-5.0
Standard & Poor's Corporation	12/11/80	119.0	31	+12.8
Data Resources, Inc.	12/28/80	107.5	32	+1.9
KEDI	12/30/80	103.1	33	-2.3
Fidelity Bank	12/31/80	105.8	34	+.3
Morgan Guaranty Trust Company	1/6/81	117.0	35	+10.9
Chase Econometrics	1/7/81	116.4	36	+10.3
Equitable Life Assurance Society	1/9/81	109.8	37	+4.1

4.00 HISTORICAL DATA SOURCES

For the reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the historical source. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.), Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly).

Table 3.0 HISTORICAL DATA SOURCES

able No.	Data Series	Source
.10 REAL GROWTH	Gross national product, 1972$	SCB, Table 1.2
	Index of industrial production	IIP. page 2
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
.20 PRICES AND NOMINAL GNP	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit GNP price deflator	SCB, Table 7.1
	Gross national product	SCB, Table 1.1
	Personal consumption expenditures	SCB, Table 1.1
	Gross private domestic investment	SCB, Table 1.1
.30 EMPLOYMENT AND LABOR	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employed	SCB, Blue pages
	-Agriculture	SCB, Blue pages
	-Non/agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages

(Table 4.00 continues on the following page)

Table 3.0 HISTORICAL DATA SOURCES (Continued)

Table No.	Data Series		Source
1.41 HOUSING	Single-family housing starts		SCB, Blue pages
	Multifamily housing starts		SCB, Blue pages
	Mobile home shipments		SCB, Blue pages
	Permits authorized		SCB, Blue pages
	1-family unit price, new		FRB, Table 2.14
	1-family unit price, existing		FRB, Table 2.14
1.42 AUTOMOBILES	Passenger cars:	Total sales	SCB, Blue pages
		Domestic	SCB, Blue pages
		Imported	SCB, Blue pages
		Dealers inventories	SCB, Blue pages
		Factory shipments	SCB, Blue pages
	Light-duty truck sales		SCB, Blue pages
1.50 FEDERAL AND STATE AND LOCAL BUDGETS	Federal govt.:	Income taxes	SCB, Table 3.2
		Corp.profit tax accr.	SCB, Table 3.2
		Surplus/deficit	SCB, Table 3.2
	State and local governments:	Income taxes	SCB, Table 3.3
		Corp.profit tax accr.	SCB, Table 3.3
		Surplus/deficit	SCB, Table 3.3
1.60 INCOME	Personal income		SCB, Table 2.1
	Personal disposable income		SCB, Table 2.1
	Compensation of employees		SCB, Table 1.11
	Corporate after tax profits		SCB, Table 1.11
	Personal saving		SCB, Table 2.1
	Average weekly earnings		SCB, Blue pages
1.70 MONEY AND CREDIT	Currency and demand deposits, M1		FRB, Table 1.21
	Time deposits, adjusted, M2		FRB, Table 1.21
	Consumer installment credit		FRB, Table 1.56
	Commercial & industrial loans		FRB, Table 1.23
	Large denomination time deposits		FRB, Table 1.21
	Mortgages at S&L Associations		FRB, Table 1.55
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES	Treasury bills (3 mo) yield		FRB, Table 1.10
	Prime rate		FRB, Table 1.33
	Conventional mortgages rate		FRB, Table 1.10
	Aaa corporate bonds rate		FRB, Table 1.35
	20 years Government bonds yield		FRB, Table 1.10
	Standard & Poor's 500 average		FRB, Table 1.36

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KEDI ECONOMIC SURVEY

OCTOBER 1982 ISSUE

**KENT ECONOMIC
AND DEVELOPMENT
INSTITUTE**

P.O. Box 641/Kent, Ohio 44240/U.S.A.

Vol. 8, No. 4, October 1,1982

KEDI ECONOMIC SURVEY

OCTOBER 1982 ISSUE

President: Dr. Vladimir J. Simunek

This updated monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquiries should be directed to: KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, Kent Student Center, KSU Campus, Kent, OH 44242, U.S.A. Kent State University Foundation,Inc., and Kent Economic and Development Institute are not liable for any claim based on deviation of forecast data from actual data. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

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Publication No. 108200764
KEDI October 1, 1982

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This forecast uses the September, 1982, U.S. Department of Commerce revised National Income and Product data. Also used is the September 1982, Board of Governors of the Federal Reserve System release of the Index of Industrial Production, and the latest available data on prices, employment, industrial, and financial developments.

1.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

1.01 EXECUTIVE SUMMARY

The forecast for the economy is not changed. Mild growth averaging 3 per cent a year is projected here for the next three years. REAL GROWTH The news is mostly of declines, but the size of the downward moves are generally small. The last quarter will show some improvements. PRICES The forecast is moved down a bit so the change in the CPI for 1982 is now seen as 6.5 per cent. EMPLOYMENT Joblessness is seen as averaging 9.5 per cent this year and declining steadily over the next few years to 7.7 per cent in 1985. HOUSING Multi-family starts will show a gain this year and single family starts will be even deeper in the doldrums than they were in '81, but 1983 will be better. AUTOS The forecast is cheerless. A leading auto publication has finally lowered its forecast. KEDI's has been quite low all along with car sales seen at the 7.7 million level this year and 7.9 million in '83. Unlike past recoveries, autos and housing will not lead us out of this economic scene. The service sector will play an important part. BUDGETS Red ink for fiscal 1983 is seen as $124 billion--not as awash in the ink as the Congressional Budget Office with their $155 billion total. INCOME Well, it managed not to go down in August. But, wages were off. That does not point to a quick turn-about. MONEY AND CREDIT The long-maintained outlook here is being realized, i.e. some relaxing of the Fed's policies. Consumer credit will gain more next year as confidence grows and people get used to somewhat lower rates. INTEREST RATES The forecast is not changed. The prime rate is seen at the 13 per cent level at the end of this year.

1.02 OVERVIEW

The forecast that has been maintained here for most of this year remains the same: general flatness and some small measure of growth before the end of the year.

The Administration has been overly optimistic in its pronouncements and interpretations of developments. KEDI also likes to look on the bright side, but there are limits. Reagan first looked ahead in late 1981 to a lively economy in the fall of this year. No vigorous rebound has--or will--occur. Now, one of Reagan's advisers, Arthur B. Laffer, talks of a boom in 1984 building on growth in 1983. Internationally, the U.S.A. is all alone in predicting rapid recovery of the world economy based on the impetus from Reagan's policies.

KEDI's view is that THERE WILL NOT BE AN ECONOMIC BOOM IN THE FORESEEABLE FUTURE. More specifically, 1983-1986 will certainly be better than this year or last, but the growth will be mild. The long-term forecast here shows growth averaging about 3 per cent in each of the next three years. That is LESS THAN ONE-HALF of what has been considered the average annual rate in recoveries since WWII. There is no way to call that a boom. Growth in the three per cent range is not enough to significantly alter the unemployment rate. On the other hand, it will keep the inflation rate at more reasonable levels.

As to the international scene, Reagan and this country can be given credit for hepling lead some slow recovery in the next few years in the developed nations.

1.03 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, no changes took place.

1. In 1986, all U.S. demand for oil should be met. In 1983, it is expected the weighted price of oil will be $34 per barrel; in 1984 it will go up to $37 per barrel; in 1985, to $40 per barrel, and in 1986, to $42 per barrel.
2. It is expected that the Mid-east crisis will continue throughout this year and more normal economic conditions including a significant resumption in the area of oil exports, will take place not earlier than in 1984.
3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1982-1986 period. In the second half of 1982 some relaxation, and in 1983 tightening is expected.
4. Increases in state and local taxation in 1982-1986 are anticipated.
5. Our foreign trade with China will gain a substantial momentum in 1982 and following years.
6. In 1982 and 1983 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1984, and U.S. record crops in 1984-86.
7. Average rates of growth in 1982-1986 in the major industrial countries: West Germany 3.4%, Japan 3.6%, Italy 2.4%, Great Britain 2.1%, France 2.8%.
8. No drastic changes in international relationships are assumed.

The September 1982 KEDI forecast is highlighted in Table 1.0 on page 4.

KEDI FORECAST HIGHLIGHTS

TABLE 1.00

Indicator	Unit	1981	1982	1985	1986
Gross national product	bil. 1972$	1502.6	1479.9	1646.1	1713.6
Index of industrial production	1967= 100	151.0	140.2	169.6	176.9
Capacity utilization	%	78.5	70.7	78.4	79.2
Unemployment rate	%	7.6	9.5	7.7	7.4
Private housing starts	%	1.084	.997	1.556	1.629
Car sales	mil.	8.6	7.6	8.7	8.8
Implicit GNP price deflator	1972= 100	195.5	207.7	257.2	276.7
Consumer price index	1967= 100	272.4	290.0	362.3	392.0
Producer price index*	1967= 100	269.7	280.5	364.8	396.7
Federal deficit	bil.$	-60.0	-122.9	-67.4	-56.3
Personal income	bil.$	2415.8	2553.0	3269.0	3589.4
Prime rate	%	18.87	14.97	12.72	13.36
Mortgage rate	%	16.52	16.27	13.02	13.66
Currency plus demand deposits	bil.$	427.1	454.0	544.5	583.2
Commercial and industrial loans	bil.$	360.6	396.9	487.5	527.4

* Finished goods

1.10 REAL GROWTH

(Table 1.10 on page 6)

Development have been confirming the prediction maintained here that the middle two quarters of this year would be fairly flat. The last part of this year is still seen as showing a gain with a bit of momentum gained in 1983.

The economy is still at the bottom and the next few years will show growth, but they will be far from "coming up roses". After the small indications of rebound in July, the August data are lousy. August is always a low month. Preliminary data for September do not show any general improvement. October will be a bit better.

1. Machine-tool orders dropped 22 per cent in August. Some in that industry do not see any upturn for them until well into the next year.

2. Industry output edged down by 0.5 per cent, seasonally adjusted. That is the 11th drop since July of 1981. It does indicate that unemployment will remain high for a while as many economists agree.

3. The cuts in taxes and the increases in social security payments have not led to rise in consumer spending so far. People have been holding on to the extra money. Later this year, they will spend some of it. Retailer reported sales were weak in August and in September.

4. The Index of Leading Indicators was down by 0.9 per cent in August. It had been gaining in the prior four months. The decline was mostly due to the edging down of the average workweek and the gain in new claims for unemployment benefits. Five indicators did rise but not

TABLE 1.10 REAL GROWTH

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1	2	3	4		
Gross national product,1972$	bil. 1972 $	1502.6	1470.7	1478.4	1481.9	1488.5	1479.9	-1.5
Index of industrial product.	1967=100	151.0	141.6	139.2	138.2	142.7	140.2	-7.2
Unemployment rate	%	7.6	8.8	9.5	9.9	9.8	9.5	24.4
Capacity utilization rate	%	78.5	71.6	70.3	70.1	70.8	70.7	-10.0
Private housing starts	mil. units	1.084	.919	.958	1.052	1.057	.997	=8.0
Car sales	mil. units	8.6	8.3	7.5	7.1	7.4	7.6	-11.6

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Gross national product,1972$	bil. 1972 $	1479.9	1504.0	1517.1	1530.7	1548.3	1525.0	3.0
Index of industrial product.	1967=100	140.2	144.3	147.7	149.6	153.3	148.7	6.1
Unemployment rate	%	9.5	9.3	8.8	8.2	7.9	8.6	-9.7
Capacity utilization rate	%	70.7	71.4	72.3	74.0	74.9	73.2	3.5
Private housing starts	mil. units	.977	1.086	1.392	1.427	1.419	1.331	36.2
Car sales	mil. units	7.6	7.9	7.7	7.9	8.0	7.9	3.9

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Gross national product,1972$	bil. 1972 $	1525.0	1560.2	1578.4	1594.1	1610.5	1585.8	4.0
Index of industrial product.	1967=100	148.7	156.2	158.9	162.3	165.7	160.8	8.1
Unemployment rate	%	8.6	7.8	7.6	7.3	7.2	7.5	-12.1
Capacity utilization rate	%	73.2	75.6	77.1	77.9	78.8	77.4	5.7
Private housing starts	mil. units	1.331	1.401	1.436	1.512	1.510	1.465	10.1
Car sales	mil. units	7.9	8.3	8.4	8.5	8.6	8.5	7.6

*Historical data (1) % change over previous year

REAL GROWTH

enough to balance the declines.

5. Auto production was cut again.

6. Steel production gained 1.2 per cent toward the end of September. Still output in the third week of September was over 45 per cent lower than it was a year ago. The outlook, as seen by the Commerce Department is for sluggish growth with gains of 1-1.5 per cent in the rest of the 1980's. KEDI agrees.

7. Home repair spending often goes up when the housing industry is in a slump, but not this time. Rising competition has meant lower prices for remodeling. So far this year such repairs and remodeling spending declined from 1981 levels.

3. Coal production is up, but much of it is going to inventories. Demand is weak.

9. The forest-products industry does not see a quick end to the slump. Slow improvement in 1983 is seen.

10. The plentiful grain harvest is causing bulging storage facilities as prices are poor. There is not much relief in sight.

Overall, the news is negative, but the increments are small. Slight gains will begin to outnumber decreases before the year is out.

1.20 PRICES

(Table 1.20 on page 9)

The forecast for consumer prices has been somewhat lowered. The CPI is now seen as gaining 6.5 per cent this year instead of the 6.8 per cent forecast in the August issue.

The change is due to KEDI revising downwards the price projections of some food items (mainly cereals, bakery and other non-meat items) and lowering the rates of increases projected for energy items. The price of food is now seen as going up just 3 per cent instead of 4 per cent, and energy items are now forecast as rising 6 per cent instead of the previously projected 7 per cent. The main item pushing the CPI up are medical costs which are expected to increase 10 per cent this year. In 1983 and 1984 the outlook is for CPI to gain 7.1 and 7.8 per cent, respectively. (Who will miss the double digit rate increases in our recent past?)

As to producer prices, the August gain of 0.6 per cent is viewed as temporary. Important for future prices, is the fact that the index for intermediate goods fell an adjusted 0.1 per cent in August. Also, the index for crude goods was down an adjusted 0.6 per cent in that month. Declines in prices for intermediate and crude goods indicate that the cost-push pressures on prices of final industrial goods and consumer goods will be weak in future months. In KEDI's projection, more significant price increases of producer goods are expected not earlier than in 1984.

TABLE 1.20 PRICES AND NOMINAL GNP

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982 1	1982 2	1982 3	1982 4	1982	% (1)
Consumer price index,n.s.a.	1967=100	272.4	283.6	287.4	292.8	296.1	290.0	6.5
Producer price index,n.s.a.**	1967=100	269.7	277.2	278.2	281.1	285.8	280.6	4.0
Implicit GNP price deflator	1972=100	195.5	203.6	206.0	208.5	212.6	207.7	6.2
Gross national product	bil.$	2937.7	2995.5	3045.2	3089.9	3164.4	3073.8	4.6
Personal consump.expend.	bil.$	1843.2	1919.4	1947.8	1984.2	2012.4	1966.7	6.7
Gross private dom.investment	bil.$	471.5	414.8	431.5	450.3	467.3	441.0	6.5

Indicator	Unit	1982	1983 1	1983 2	1983 3	1983 4	1983	% (1)
Consumer price index,n.s.a.	1967=100	290.0	303.0	307.8	313.1	318.5	310.6	7.1
Producer price index,n.s.a.**	1967=100	280.6	291.2	298.9	305.9	311.6	301.9	7.6
Implicit GNP price deflator	1972=100	207.7	215.8	219.4	222.6	225.7	220.9	6.4
Gross national product	bil$	3073.8	3245.6	3328.5	3405.8	3494.5	3368.6	9.6
Personal consump.expend.	bil.$	1966.7	2055.4	2113.8	2191.6	2250.9	2156.4	9.6
Gross private dom.investment	bil.$	441.0	480.5	492.6	503.5	514.7	497.8	12.9

Indicator	Unit	1983	1984 1	1984 2	1984 3	1984 4	1984	% (1)
Consumer price index,n.s.a.	1967=100	310.6	323.8	330.4	339.2	345.7	334.8	7.8
Producer price index,n.s.a.**	1967=100	301.9	315.2	324.6	334.5	346.7	330.3	9.4
Implicit GNP price deflator	1972=100	220.9	230.4	235.2	240.1	245.8	237.9	7.7
Gross national product	bil.$	3368.6	3594.7	3712.4	3827.4	3958.6	3773.3	12.1
Personal consump.expend.	bil.$	2156.4	2322.0	2356.7	2412.6	2463.1	2418.6	12.2
Gross private dom.investment	bil.$	497.8	520.6	543.4	552.8	567.4	546.1	9.7

*Historical data (1) % change over previous year **Finished goods

1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 11)

The forecast is essentially unchanged for this year and slightly increased for 1983 and 1984 unemployment. KEDI does not see as likely that the unemployment rate will exceed 10 per cent for a longer time. The long-term outlook is presented:

Unemployment Rates

(Year averages)

1982	9.5 %
1983	8.6 %
1984	7.5 %
1985	7.7 %
1986	7.4 %

In 1983, joblessness will remain high in the following areas: automobiles , steel, lumber, forest products, construction, rubber,and plastics.

There will be improvements in mining, electrical machinery, chemicals, farm equipment, primary metals, paper and products, textiles, apparel, and transportation.

The job scene will be fairly good in oil, defense, food, wholesale and retail trade, and nonelectrical machinery.

In 1984, the job outlook will be more encouraging. Improvements are projected for rubber, plastics, construction, and forest products. Steel, automobiles, and primary metals will still not be out of woods.

The job picture for 1985 will remain essentially unchanged when compared with the year 1984. Some improvements are expected for steel, primary metals, automobiles and related industries. The year 1986 should bring a general increase in employment.

TABLE 1.30 EMPLOYMENT AND LABOR

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	%
			1	2	3	4		(1)
Population	mil.	225.9	228.0	229.2	230.4	231.4	229.6	1.6
Civilian labor force	mil.	108.7	109.1	110.2	110.9	111.8	110.5	1.7
Employment	mil.	100.5	99.5	99.8	99.9	100.8	100.0	-.5
Agriculture	mil.	3.4	3.4	3.4	3.3	3.3	3.4	.0
Non agricult.	mil.	97.1	96.1	96.4	96.6	97.5	96.6	-.5
Unemployment rate	%	7.62	8.77	9.46	9.92	9.78	9.48	24.4

Indicator	Unit	1982	1983				1983	%
			1	2	3	4		(1)
Population	mil.	229.6	231.5	232.2	232.9	233.4	232.5	1.3
Civilian labor force	mil.	110.5	112.6	113.8	114.9	115.8	114.3	3.3
Employment	mil.	100.0	102.1	103.8	105.4	106.7	104.5	4.5
Agriculture	mil.	3.4	3.3	3.4	3.3	3.4	3.4	.0
Non agricult.	mil.	96.6	98.8	100.4	102.1	103.3	101.1	4.7
Unemployment rate	%	9.48	9.29	8.79	8.24	7.90	8.56	-9.7

Indicator	Unit	1983	1984				1984	%
			1	2	3	4		(1)
Population	mil.	232.5	234.5	235.2	236.0	236.9	235.7	1.4
Civilian labor force	mil.	114.3	117.0	117.9	118.8	120.1	118.5	3.7
Employment	mil.	104.5	107.9	109.0	110.2	111.4	109.6	4.6
Agriculture	mil.	3.4	3.3	3.3	3.4	3.4	3.4	.0
Non agricult.	mil.	101.1	104.6	105.7	106.8	108.0	106.2	4.7
Unemployment rate	%	8.56	7.78	7.55	7.28	7.22	7.46	-12.9

*Historical data (1) % change over previous year

1.41 HOUSING

(Table 1.41 on page 13)

The forecast is unchanged. The August data confirm that the July increase was only temporary. Housing starts were down 16.2 per cent in August to an adjusted annual rate of just over one million. The typical rate of about twice that which held in housing boom years is not seen as making a comeback any more than nickel phone calls and wood buckets.

KEDI maintains its position that multi-family housing will expand-- even if individual rooms are smaller-- and single family homes will gain slowly.

Year-to-year Percentage Change

	Single-family starts	Multi family starts
1982/81	-14.2	3.2
1983/82	29.7	39.6
1984/83	7.8	13.2
1985/84	6.5	7.9
1986/85	7.2	8.6

This Institute is not as optimistic as Mr. Sumichrast of the National Association of Home Builders. He looks to an upturn later this fall. If there is one, it will be quite small. One of the reasons is that building permits dropped in August by 16.6 per cent. Also, KEDI calculations show that unless the mortgage rate goes to the 11-12 per cent range, no significant rebound will take place. Such rates are not seen over the next few years. Sales of new homes were off by 4.9 per cent in July and reached the third lowest rate in two decades. The forecast shows no significant improvement in the foreseeable future.

TABLE 1.41 HOUSING

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1	2	3	4		
Single-family housing starts	mil.	.706	.586	.603	.614	.620	.606	-14.2
Multifamily housing starts	mil.	.379	.333	.355	.438	.437	.391	3.2
Mobile home shipments	mil.	.241	.238	.246	.256	.258	.250	3.7
Permits authorized	mil.	.969	.832	.924	.951	1.985	.923	-4.7
1-family unit** price, new	tho.$	83.1	80.7	86.2	90.6	94.9	88.1	6.0
1-family unit** price,existing	tho.$	78.0	79.2	80.4	82.7	85.6	81.7	4.7

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Single-family housing starts	mil.	.606	.654	.831	.826	.831	.786	29.7
Multifamily housing starts	mil.	.391	.432	.561	.601	.588	.546	39.6
Mobile home shipments	mil.	.250	.284	.300	.312	.336	.308	23.2
Permits authorized	mil.	.923	1.002	1.178	1.312	1.306	1.200	30.0
1-family unit** price, new	mil.	88.1	97.9	100.2	101.9	103.8	101.0	14.6
1-family unit** price,existing	tho.$	81.7	88.2	91.0	94.0	96.8	92.5	13.2

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Single-family housing starts	mil.	.786	.807	.828	.869	.882	.847	7.8
Multifamily housing starts	mil.	.546	.594	.608	.643	.628	.618	13.2
Mobile home shipments	mil.	.308	.301	.326	.347	.306	.320	3.9
Permits authorized	mil.	1.200	1.289	1.402	1.475	1.453	1.407	17.3
1-family unit** price, new	tho.$	101.0	106.4	109.0	112.2	115.1	110.7	9.6
1-family unit** price,existing	tho.$	92.5	98.9	102.3	105.1	107.1	103.4	11.8

*Historical data (1) % change over previous year **Not seas. adjusted

1.42 AUTOMOBILES

(Table 1.42 on page 15)

The forecast remains quite gloomy. Car sales are seen here as very slowly moving ahead over the next several years but remaining at historically low levels.

Automotive News World Outlook lowered its forecast in late September for total car sales this year to 7.9 million from 8.4 million. Their 1983 forecast was reduced from 9.5 million to 9.2 million. KEDI has maintained its forecast for months. FINALLY, the top forecasting service for cars is coming close to KEDI's projection which is repeated here.

	Car Sales (mil. units)
1982	7.6
1983	7.9
1984	8.5

Recent data confirm KEDI's forecast for 1982.

1. Car sales in the first 10 days of September plunged 29 per cent.
2. The mid-September increase of 14.7 per cent is only temporary. Promotions to move out 1982 models have ended.
3. Inventories of unsold cars are hefty. The incentives did not clear the lots. Inventories were at an 18-year high.
4. Auto production was, again, cut in early September.
5. Ford cut production plans, again, for the fourth quarter.

TABLE 1.42 AUTOMOBILES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982 1	 2	 3	 4	1982	% (1)
Passenger cars								
Total sales	mil.	8.6	8.3	7.5	7.1	7.4	7.6	-11.6
Domestic	mil.	6.3	6.0	5.5	5.3	5.7	5.6	-11.1
Imported	mil.	2.3	2.3	2.0	1.7	1.7	1.9	-17.4
Dealers inventories**	mil.	1.5	1.1	1.2	1.6	1.7	1.4	-6.7
Factory shipments	mil.	6.3	4.1	4.9	4.7	5.3	4.8	-13.7
Light-duty truck sales	mil.	1.6	1.9	1.7	1.6	1.8	1.8	12.5

Indicator	Unit	1982	1983 1	 2	 3	 4	1983	% (1)
Passenger cars								
Total sales	mil.	7.6	7.9	7.7	7.9	8.0	7.9	3.9
Domestic	mil.	5.6	6.1	5.9	6.1	6.3	6.1	8.9
Imported	mil.	1.9	1.8	1.8	1.8	1.7	1.8	-5.3
Dealers inventories**	mil.	1.4	1.7	1.5	1.4	1.5	1.5	7.1
Factory shipments**	mil.	4.8	5.6	5.7	5.4	6.1	5.7	18.8
Light-duty truck sales	mil.	1.8	1.7	1.8	1.9	1.9	1.8	.0

Indicator	Unit	1983	1984 1	 2	 3	 4	1984	% (1)
Passenger cars								
Total sales	mil.	7.9	8.3	8.4	8.5	8.6	8.5	7.6
Domestic	mil.	6.1	6.6	6.6	6.8	7.0	6.8	11.5
Imported	mil.	1.8	1.7	1.8	1.7	1.6	1.7	-5.6
Dealers inventories**	mil.	1.5	1.5	1.5	1.4	1.5	1.5	.0
Factory shipments**	mil.	5.7	6.4	6.5	6.4	6.7	6.5	14.0
Light-duty truck sales	mil.	1.8	2.0	2.0	2.1	2.2	2.1	16.7

*Historical data (1) % change over previous year **Seas. not adjusted

1.50 BUDGETS

(Table 1.50 on page 17)

The forecast here is only slightly changed.In the last issue, estimates for the size of the Federal deficit for fiscal 1983-85 were reduced about 5-10 per cent from the August estimates. In this October issue, the projection is increased so the red ink totals now appear to be in the area of $124 billion for the fiscal 1983 year, $110 billion for '84, $80 billion for '85, and $62 billion for 1986.

Recent predictions of the Congressional Budget Office are viewed here as overly pessimistic. They see the 1984 and '85 deficits in the $150 billion range--unless there are more tax increases and more cuts in spending.

KEDI's calculations of the impact of these deficits on interest rates show that they are not of great consequence. As has been stated here for several months, there are surpluses in the Households, Banking, and State and Local Governments sectors that will make up for the shortage of funds at the federal level without putting great pressure on interest rates.

The Treasury's latest budget report shows that the deficit for the first 11 months of the fiscal year 1982 totaled $108.95 billion. Indications are that September will end with a slight deficit. That will bring the 1982 fiscal year deficit close to $110 billion; the figure advocated by KEDI for months.

The forecast for state and local budgets has not been changed.

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1	2	3	4		
Federal govt.:								
Income taxes	bil.$	298.1	299.9	305.8	279.8	284.3	292.5	-1.9
Corporate prof. tax accruals	bil.$	67.3	45.6	45.2	46.0	49.2	46.5	-30.9
Surplus/deficit	bil.$	60.0	-119.3	-119.6	-134.6	-118.1	-122.9	104.8
State and local governments:								
Income taxes	bil.$	88.6	93.6	95.4	97.9	100.4	96.8	9.3
Corporate prof. tax accruals	bil.$	10.1	10.1	10.2	10.3	10.8	10.4	3.0
Surplus/deficit	bil.$	31.7	27.7	32.4	33.1	33.1	31.7	.0

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Federal govt.:								
Income taxes	bil.$	292.5	304.1	307.3	282.8	294.6	297.2	1.6
Corporate prof. tax accruals	bil.$	46.5	55.8	62.6	68.8	73.2	65.1	40.0
Surplus/deficit	bil.$	-122.9	-103.1	-94.0	-120.5	-101.6	-104.8	-14.7
State and local governments:								
Income taxes	bil.$	96.8	104.9	109.1	110.2	111.3	108.9	12.5
Corporate prof. tax accruals	bil.$	10.4	12.2	13.3	13.8	14.6	13.5	29.8
Surplus/deficit	bil.$	31.7	34.2	35.1	37.0	36.1	35.6	12.3

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Federal govt.:								
Income taxes	bil.$	297.2	308.9	320.8	335.6	353.4	329.7	10.9
Corporate prof. tax accruals	bil.$	65.1	76.6	81.0	86.4	90.3	83.6	28.4
Surplus/deficit	bil.$	-104.8	-96.4	-92.3	-83.1	-78.5	-87.6	-16.4
State and local governments:								
Income taxes	bil.$	108.9	114.1	116.2	121.0	124.1	118.9	9.2
Corporate prof. tax accruals	bil.$	13.5	15.2	15.6	16.1	17.0	16.0	18.5
Surplus/deficit	bil.$	35.6	35.9	36.2	37.1	38.3	36.9	3.7

*Historical data (1) % change over previous year

1.60 INCOME

(Table 1.60 on page 19)

The forecast is not changed. Personal income did inch ahead a modicum. In August it just barely made a gain of 0.3 per cent. Putting that in perspective, at least it did not drop. KEDI's forecast for the rest of the year and for 1983 shows modest gains only. More significant increases in personal income are expected not earlier than in 1984.

However, it is nto a good sign that factory wages declined as did weekly earnings and average hourly earnings. Weekly factory pay in July went down to $322.60 from an average in the prior month of $334.05. Hourly pay in August was off an average of four cents to $8.51 an hour. Indications are that average weekly factory wages will continue declining in coming months and will level off at the end of this year. The data on wages certainly do not point to any quick improvement in the economy. That is in line with the general forecast maintained at this Institute. Robust recovery is not just around the corner. Hesitant steps that will very slowly gain in steadiness and some slightly quickened pace (3 per cent a year is slight) will begin to be noticeable in the next few months.

Forecast of corporate profits remains essentially unchanged when compared with KEDI's previous forecast.

TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1	2	3	4		
Personal income	bil.$	2415.8	2510.5	2552.7	2563.4	2585.3	2553.0	5.7
Personal disposable income	bil.$	2029.1	2117.1	2151.5	2185.7	2200.5	2163.7	6.6
Compensation of employees	bil.$	1767.6	1819.9	1850.7	1868.5	1921.4	1865.1	5.5
Corporate after tax profits	bil.$	150.9	115.9	116.3	120.1	128.6	120.2	-20.3
Personal saving	bil.$	130.2	139.1	144.3	160.0	154.8	149.6	14.9
Average weekly earnings	$	316.8	320.5	328.1	330.3	337.2	329.0	4.0

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Personal income	bil.$	2553.0	2618.9	2678.5	2756.1	2819.4	2718.2	6.5
Personal disposable income	bil.$	2163.7	2209.9	2262.1	2363.1	2413.5	2287.2	5.7
Compensation of employees	bil.$	1865.1	1942.3	1986.3	2013.5	2049.7	1998.0	7.1
Corporate after tax profits	bil.$	120.2	134.3	138.8	146.7	154.3	143.5	19.4
Personal saving	bil.$	149.6	151.5	145.4	163.2	157.8	154.5	3.3
Average weekly earnings	$	329.0	340.5	351.4	356.2	361.3	352.4	7.1

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Personal income	bil.$	2718.2	2858.6	2961.4	3036.7	3128.5	2996.3	10.2
Personal disposable income	bil.$	2287.2	2435.6	2524.4	2580.1	2651.0	2457.8	11.4
Compensation of employees	bil.$	1998.0	2087.2	2157.1	2232.4	2284.6	2190.3	9.6
Corporate after tax profits	bil.$	143.5	157.2	160.4	164.6	168.8	162.8	13.4
Personal saving	bil.$	154.5	156.0	161.2	163.2	164.3	161.2	4.3
Average weekly earnings	$	352.4	370.2	375.6	380.2	383.4	377.4	7.1

*Historical data (1) % change over previous year

1.70 MONEY AND CREDIT

(Table 1.70 on page 21)

KEDI has forecast since 1981 that the Fed would relax policies in the latter part of 1982. Developments in the last three months are confirming that forecast.

It has been maintained here that the Federal Reserve powers would put up with money growth above target levels. They have been doing that. The growth in M1 has been exceeding the target range of 2.5 to 5.5 per cent. A tightening is not expected before 1983.

The projection of commercial and industrial loans has been increased somewhat. This is mainly due to the change in reporting data for that type of loans. A strong demand for commercial and industrial loans is expected to prevail in 1983-84 with a slowdown in 1985 and resumption in 1986.

Consumer installment credit is still seen as going up by about 5 per cent during this year. In the next two years the rate of gain will quicken. KEDI anticipates that consumers will keep their generally cautious attitude for this year. Most will not be purchasing large items such as cars and appliances. They have tended to keep their savings because of high interest rates and their uncertainty about the economy. Next year, their confidence will gain.

Forecast data for mortgages have been lowered somewhat for Savings & Loan Associations and increased for Commercial Banks. It is anticipated that in 1983-1985 the commercial banking's share on mortgage business will grow more rapidly than that of savings and loan associations'.

TABLE 1.70 MONEY AND CREDIT
(Data for "Currency and demand deposits, M1", "Time deposits, adjusted, M2", and "Large denomination time deposits" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1981*	1982 1	 2	 3	 4	1982	% (1)
Currency and demand deposits, M1	bil.$	427.1	448.0	451.7	454.6	461.7	454.0	6.3
Time deposits, adjusted, M2	bil.$	1723.4	1851.1	1895.3	1912.6	1932.4	1897.9	10.1
Consumer instal. credit	bil.$	333.4	327.1	331.9	340.7	348.7	348.7	4.6
Commerc.& indus. loans at banks	bil.$	360.1	369.0	382.7	385.7	396.9	396.9	10.2
Large denomination time dep.	bil.$	295.4	307.7	322.2	328.5	330.6	322.3	9.1
Mortgages at S & L Assns.	bil.$	518.4	515.9	512.4	516.5	520.1	520.1	.3

Indicator	Unit	1982	1983 1	 2	 3	 4	1983	% (1)
Currency and demand deposits, M1	bil.$	454.0	465.7	472.3	480.5	490.6	477.3	5.1
Time deposits, adjusted, M2	bil.$	1897.9	1949.6	1992.4	2027.5	2074.8	2011.1	6.0
Consumer instal. credit	bil.$	348.7	352.6	357.3	365.6	371.2	371.2	6.5
Commerc.& indus. loans at banks	bil.$	396.9	400.1	406.2	415.3	423.9	423.9	6.8
Large denomination time dep.	bil.$	322.3	334.5	337.2	342.4	347.1	340.2	5.6
Mortgages at S & L Assns.	bil.$	520.1	527.8	532.9	540.7	543.6	543.6	4.5

Indicator	Unit	1983	1984 1	 2	 3	 4	1984	% (1)
Currency and demand deposits, M1	bil.$	477.3	494.8	503.1	514.0	525.7	509.4	6.7
Time deposits, adjusted, M2	bil.$	2011.1	2099.4	2152.6	2210.7	2265.6	2182.1	8.5
Consumer instal. credit	bil.$	371.2	380.9	389.4	399.2	409.3	409.3	10.3
Commerc.& indus. loans at banks	bil.$	423.9	429.5	440.7	446.1	454.3	454.3	7.2
Large denomination time dep.	bil $	340.2	352.6	361.4	370.5	380.2	366.2	7.6
Mortgages at S & L Assns.	bil.$	543.6	551.8	560.7	569.4	578.5	578.5	7.9

*Historical data (1) % change over previous year

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 23)

The forecast is not altered. The view of this Institute that has existed since last year is being confirmed. Namely, interest rates have been declining lately. They will do so during the rest of the year but in smaller increments. Rates will stabilize in 1983 and slightly increase in the second half of 1984.

KEDI expects the following:

1. The yield on 3mo Treasury bills will be around 8 per cent for the rest of this year, 9-10 per cent in the first half of 1983 and above 10 per cent in the latter part of that year.
2. The prime rate is seen here as declining to the 13 per cent range at the end of the year and edge down a bit more until the second quarter of 1983. After that, it will go up again.
3. Mortgage rates will move down during the rest of this year and in 1983. At the end of 1983, a conventional mortgage rate of close to 13 per cent is forecast.
4. Aaa corporate bonds are seen as having slightly declining rates through the end of 1983 when the rate KEDI anticipates is about 11-12 per cent.
5. Long-term U.S. Government bonds are expected to remain firm with the yield hoovering around 13 per cent through next year.

The stock market forecast remains unchanged with no significant gains or losses. Through 1983, the Dow Jones is seen as in the 900-950 range and the Standard & Poor's in the 120-125 area.

TABLE 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES
(Quarterly averages of monthly figures)

Indicator	Unit	1981*	1982				1982	% (1)
			1	2	3	4		
Treasury bills (3 mo) yield	%	14.03	12.81	12.42	10.02	9.94	11.30	-11.8
Prime rate	%	18.87	16.27	16.50	14.17	12.94	14.97	-20.7
Conventional mortgages rate	%	16.52	17.10	16.63	16.04	15.32	16.27	-1.5
Aaa corporate bonds rate	%	14.17	15.01	14.52	13.72	12.94	14.05	-.8
20 years Govt. bonds yield	%	13.72	14.27	13.74	13.14	13.26	13.60	-.8
Standard & Poor's 500 avg.	1941-43=100	128.05	114.25	114.12	117.79	121.42	116.90	-8.7

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Treasury bills (3 mo) yield	%	11.30	9.89	10.09	10.71	11.43	10.53	-6.8
Prime rate	%	14.97	12.04	11.87	12.14	12.62	12.17	-18.
Conventional mortgages rate	%	16.27	15.16	14.85	14.24	14.02	14.57	-10.
Aaa corporate bonds rate	%	14.05	12.63	12.03	11.87	11.76	12.07	-14.1
20 years Govt. bonds yield	%	13.60	13.59	13.52	13.19	13.07	13.34	-1.9
Standard & Poor's 500 avg.	1941-43=100	116.90	123.31	123.87	121.54	122.43	122.79	5.0

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Treasury bills (3 mo) yield	%	10.53	11.08	11.16	11.91	12.30	11.61	10.3
Prime rate	%	12.17	12.32	11.90	11.96	12.63	12.20	.2
Conventional mortgages rate	%	14.57	13.84	13.50	13.01	13.36	13.43	-7.
Aaa corporate bonds rate	%	12.07	12.42	12.56	12.64	12.91	12.63	4.6
20 years Govt. bonds yield	%	13.34	13.19	13.48	13.73	13.65	13.51	1.3
Standard & Poor's 500 avg.	1941-43=100	122.79	121.56	123.42	126.27	123.84	123.77	.8

*Historical data (1) % change over previous year

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the Nonresidential Investment in current dollars for the year 1981 (before the July 1981 revision) has been selected for comparison. The actual figure is in Table 1.1 of the Survey of Current Business, No.3, March 1982 (U.S.Department of Commerce, Washington, D.C., monthly). Forecast data are from Business Forecasts 1981 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1981). Some forecasters were unable to catch the December 1980 revision of the Income and Product data, and their forecasts may deviate because of this reason. The following table shows the predictions of forecasters and deviations of forecast data.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

(Nonresidential Investment, billions of current $)

Actual figure: 328.9

Forecaster	Date of Forecast	Forecast	Page of Business Forecasts 1981	% of Accuracy
Georgia State University	11/80	295.3	23	-10.2
The First National Bank of Chicago	11/8/80	279.0	24	-15.1
Manufacturers Hanover Trust	11/12/80	275.0	25	-16.4
UCLA	12/80	288.8	27	-12.2
Bankers Trust Company	12/10/80	287.0	30	-12.7
Standard & Poor's Corporation	12/11/80	293.0	31	-10.9
Data Resources, Inc.	12/28/80	288.0	32	-12.4
KEDI	12/31/80	328.5	33	-.1
Fidelity Bank	12/31/80	295.1	34	-10.2
Morgan Guaranty	1/6/81	310.4	35	-5.6
Chase Econometrics	1/7/81	326.6	36	.7
Equitable Life Insurance	1/9/81	313.4	37	-4.7

4.00 HISTORICAL DATA SOURCES

For the reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the historical source. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.), Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly).

Table 3.0 HISTORICAL DATA SOURCES

Table No.	Data Series	Source
1.10 REAL GROWTH	Gross national product, 1972$	SCB, Table 1.2
	Index of industrial production	IIP, page 2
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.20 PRICES AND NOMINAL GNP	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit GNP price deflator	SCB, Table 7.1
	Gross national product	SCB, Table 1.1
	Personal consumption expenditures	SCB, Table 1.1
	Gross private domestic investment	SCB, Table 1.1
1.30 EMPLOYMENT AND LABOR	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employed	SCB, Blue pages
	-Agriculture	SCB, Blue pages
	-Non agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages

(Table 3.00 continues on the following page)

Table 3.0 HISTORICAL DATA SOURCES (Continued)

Table No.	Data Series		Source
1.41 HOUSING	Single-family housing starts		SCB, Blue pages
	Multifamily housing starts		SCB, Blue pages
	Mobile home shipments		SCB, Blue pages
	Permits authorized		SCB, Blue pages
	1-family unit price, new		FRB, Table 2.14
	1-family unit price, existing		FRB, Table 2.14
1.42 AUTOMOBILES	Passenger cars:	Total sales	SCB, Blue pages
		Domestic	SCB, Blue pages
		Imported	SCB, Blue pages
		Dealers inventories	SCB, Blue pages
		Factory shipments	SCB, Blue pages
	Light-duty truck sales		SCB, Blue pages
1.50 FEDERAL AND STATE AND LOCAL BUDGETS	Federal govt.:	Income taxes	SCB, Table 3.2
		Corp.profit tax accr.	SCB, Table 3.2
		Surplus/deficit	SCB, Table 3.2
	State and local governments:	Income taxes	SCB, Table 3.3
		Corp.profit tax accr.	SCB, Table 3.3
		Surplus/deficit	SCB, Table 3.3
1.60 INCOME	Personal income		SCB, Table 2.1
	Personal disposable income		SCB, Table 2.1
	Compensation of employees		SCB, Table 1.11
	Corporate after tax profits		SCB, Table 1.11
	Personal saving		SCB, Table 2.1
	Average weekly earnings		SCB, Blue pages
1.70 MONEY AND CREDIT	Currency and demand deposits, M1		FRB, Table 1.21
	Time deposits, adjusted, M2		FRB, Table 1.21
	Consumer installment credit		FRB, Table 1.56
	Commercial & industrial loans		FRB, Table 1.23
	Large denomination time deposits		FRB, Table 1.21
	Mortgages at S&L Associations		FRB, Table 1.55
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES	Treasury bills (3 mo) yield		FRB, Table 1.10
	Prime rate		FRB, Table 1.33
	Conventional mortgages rate		FRB, Table 1.10
	Aaa corporate bonds rate		FRB, Table 1.35
	20 years Government bonds yield		FRB, Table 1.10
	Standard & Poor's 500 average		FRB, Table 1.36